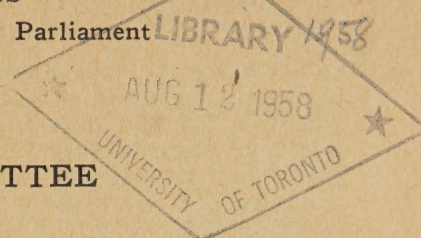




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Canada. Railways, Air Lines and Shipping, Sessional Committee on,
HOUSE OF COMMONS
First Session—Twenty-fourth Parliament
1958



SESSIONAL COMMITTEE

ON

**RAILWAYS, AIR LINES
AND SHIPPING**

Owned, Operated and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

including

REPORTS TO THE HOUSE

MONDAY, JULY 14, 1958

TUESDAY, JULY 15, 1958

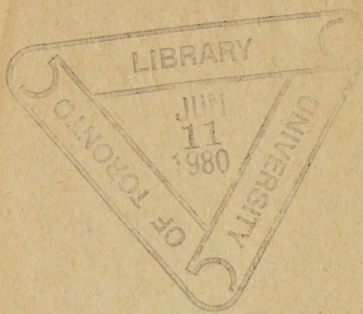
Canadian National Railways Annual Report (1957) and Budgets (1958);
Canadian National (West Indies) Steamships Ltd. Annual Report (1957)
and Budget (1958);
Canadian National Railways Security Trust Annual Report (1957);
Auditors' Report to Parliament of Geo. A. Touche & Co.;
Estimates (1958-59) Items 431, 432 and 443 and Item 635 of the Supple-
mentary Estimates.

WITNESSES:

Mr. Donald Gordon, C.M.G., Mr. S. F. Dingle and Mr. R. D. Armstrong
of the Canadian National Railways; Mr. J. A. Wilson and J. W. Beech
of George A. Touche & Company.

(Proceedings relating to Trans-Canada Air Lines appear in
Issue No. 2)

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1958



SESSIONAL COMMITTEE
on
RAILWAYS, AIR LINES AND SHIPPING

Owned and controlled by the
Government.

Chairman: W. Earl Rowe

Vice-Chairman: Yvon R. Tassé
and Messrs.

Bourbonnais
Brassard (*Lapointe*)
Broome
Carter
Chevrier
Chown
Creaghan
Drysdale

Fisher
Fraser
Grills
Gundlock
Hardie
Kennedy
Loiselle
Martini

Mitchell
Monteith (*Verdun*)
Pascoe
Robichaud
Robinson
Rynard
Smith (*Calgary South*)
Smith (*Simcoe North*)

Antonio Plouffe,
Assistant Chief Clerk of Committees.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
WEDNESDAY, July 9, 1958.

Resolved,—That a Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time and that, notwithstanding Standing Order 67 in relation to the limitation of the number of members, the said Committee to consist of Messrs. Bourbonnais, Brassard (*Lapointe*), Broome, Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Grills, Gundlock, Hardie, Kennedy, Loiselle, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robichaud, Robinson, Rowe, Rynard, Smith (*Calgary South*), Smith (*Simcoe North*), and Tasse.

WEDNESDAY, July 9, 1958.

Ordered,—That the Annual Reports for 1957 of the Canadian National Railways; Canadian National (West Indies) Steamships Limited; Canadian National Railways Securities Trust; Auditor's Report to Parliament in respect of the Canadian National Railways and Canadian National (West Indies) Steamships for the year 1957, tabled on May 22, 1958; the budget for 1958 of the Canadian National Railways tabled on June 2, 1958; the Annual Report of Trans-Canada Air Lines for 1957; the Auditor's Report to Parliament on Trans-Canada Air Lines for the year 1957, tabled on May 23, 1958, and the budget for 1958 of Trans-Canada Air Lines, tabled on January 31, 1958, be referred to the Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government, and that items numbered 431—Prince Edward Island Car Ferry and Terminals; 432—Newfoundland Ferry and Terminals; 442—Maritime Freight Rates Act; 443—Canadian National (West Indies) Steamships Limited as listed in the Main Estimates 1958-59, and item 635—Canadian National (West Indies) Steamships Limited as listed in the Supplementary Estimates 1958-59, be withdrawn from the Committee of Supply and referred to the said Committee, saving always the powers of the Committee of Supply in relation to the voting of public moneys.

FRIDAY, July 11, 1958.

Ordered,—That the quorum of the Sessional Committee on Railways, Air Lines and Shipping be set at 10 Members.

Ordered,—That the said Committee be empowered to sit while the House is sitting.

Ordered,—That the said Committee be authorized to print, from day to day, 1000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence and that Standing Order 66 be suspended in relation thereto.

MONDAY, July 14, 1958.

Ordered,—That the revised Budget for 1958 of the Canadian National Railways and the operating budget of the Canadian National (West Indies) Steamships Limited, tabled this day, be referred to the Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORTS TO THE HOUSE

FRIDAY, July 11, 1958.

The Sessional Committee on Railways, Air Lines and Shipping has the honour to present its

FIRST REPORT

Your Committee recommends:

1. That its quorum be set at 10 members.
2. That it be empowered to sit while the House is sitting.
3. That it be authorized to print, from day to day, 1000 copies in English and 250 in French of its minutes of proceedings and evidence and that Standing Order 66 be suspended in relation thereto.

Respectfully submitted,

W. EARL ROWE,
Chairman.

Note: Concurred in this day.

WEDNESDAY, July 16, 1958.

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government has the honour to present the following as its

SECOND REPORT

Your Committee has considered the following items of the Estimates referred to the Committee on Wednesday, July 9, 1958:

- Vote 431—Prince Edward Island Car Ferry and Terminals;
- Vote 432—Newfoundland Ferry and Terminals;
- Vote 442—Maritime Freight Rates Act; and
- Vote 443—Canadian National (West Indies) Steamships Limited, of the Main Estimates 1958-59, and item 635—Canadian National (West Indies) Steamships Limited of the Supplementary Estimates 1958-59.

Your Committee recommends their approval.

Respectfully submitted,

W. EARL ROWE,
Chairman.

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, begs leave to present the following as its

THIRD REPORT

Pursuant to the Orders of Reference of the House of Commons of July 9, 11, and 14, 1958, your Committee had for consideration the following:

1. The Annual Reports of the Canadian National Railways; Canadian National (West Indies) Steamships, Limited; Canadian National Railways Securities Trust, for the year 1957 and the Auditors' Reports to Parliament in relation thereto, tabled on May 22, 1958 and the Canadian National Railways revised Capital and Operating Budget for 1958 tabled on July 14, 1958; the Annual Report of Trans-Canada Air Lines for the year 1957 and the Operating and Capital Budget thereof for the year 1958, and the Auditors' Report to Parliament thereon.

2. Your committee held eight meetings in the course of which the officials of the Canadian National Railways and the Trans-Canada Air Lines as well as representatives of George A. Touche & Co., auditors, were heard and examined.

3. The Annual Report of the Canadian National Railways for 1957 disclosed operating revenues of \$753,165,964 and operating expenses of \$734,556,041 resulting in a net revenue from railway operations of \$18,609,-923. However, after taxes, rents, other income and fixed charges were taken into account the net result was a deficit of \$29,572,541 for the year's operations. This compares with a surplus of \$26,076,951 in the year 1956, the change being attributed to a combination of lower traffic and higher wage and material costs. Your Committee noted however that in spite of the traffic decline in 1957 the Canadian National continued to improve and modernize its equipment, facilities, methods and techniques.

4. Your Committee observed that in 1957 three separate new rail lines were added to the Canadian National System, opening up additional areas of Canada for settlement and development. In Quebec, a 161-mile line from Beattyville to Chibougamau was officially opened in November and progress made on a 133-mile line from St. Felicien to Cache Lake, where it will link up with the Beattyville-Chibougamau branch. In New Brunswick, a 23-mile line was opened between Bartibog and the base metal development at Heath Steele. In Manitoba, Canadian National took over operation of a new 31-mile line from Sipiwek on the Hudson Bay line to the International Nickel Company development at Thompson.

5. Your Committee also noted with satisfaction that progress was made during the year on the Company's long range plans for the construction of new automatic train marshalling yards at main strategic centres in the Atlantic, Central and Western Regions.

6. The Annual Report of the Canadian National (West Indies) Steamships, Limited for 1957 disclosed a net deficit of \$648,849.80, compared with a surplus of \$23,280.72 for 1956. Operations of the company were curtailed during 1957 by a strike called by the Seafarers International Union effective July 4. As a result of the strike, which remained unsettled at the year end, the number of voyages made by company vessels was reduced to 33 from 54 in the previous year.

7. Your Committee was also informed that the decision had been reached to abandon the service, dispose of the assets by sail and wind up completely the above Company's affairs.

8. The Annual Report of Trans-Canada Air Lines for 1957 showed a net surplus of \$404,674, after provision for depreciation of \$6,819,160, and the payment of interest on capital invested in the enterprise in the amount of \$1,690,819. The year 1957 was the seventh consecutive one in which the company reported a profitable operation.

9. Of particular interest to your Committee was the fact that the programme of fleet conversion to turbine type aircraft, which by 1961 is expected to make TCA the first international airline in the world to have a fully turbine-powered fleet, was adhered to during 1957, fourteen additional Viscounts being placed in service, and six DC 3's retired. Your Committee also noted that, as planned, the company in 1957 had increased its capacity by 20 per cent in relation to a 15 per cent increase in traffic carried. This action, while reducing the over-all load factor from 73.1 per cent in 1956 to 70.7 per cent in 1957, substantially improved the company's ability to meet the peak period traffic demand.

It was also noted that as of the year end, the company had on order nineteen Viscounts, six full jet DC 8 long range aircraft, and twenty medium range Vanguard turbine propeller aircraft, which, with associated spares, represent a capital commitment of \$118,000,000, exclusive of payments already made on these orders.

10. Your Committee adopted the Annual Reports of the Canadian National Railways and Trans-Canada Air Lines for 1957, as well as their respective Capital and Operating Budgets for 1958. Your Committee also approved the C.N.R. Securities Trust and the Auditor's Report to Parliament. It also approved the Annual Report for 1957 of the Canadian National (West Indies) Steamships, Limited, and the Auditor's Report thereon.

11. Your Committee, in accordance with an Order of Reference of the House, dated July 9, considered Votes 431, 432, 442 and 443 as listed in the Main Estimates for 1958-59, and Item 635 as listed in the Supplementary Estimates 1958-59. In its Second Report to the House, your Committee recommended the approval of the said Estimates.

12. Your Committee feels indebted to all those who contributed to its inquiring by their attendance and their information, including the Minister of Transport and Mr. Donald Gordon, C.M.G., LL.D.; Mr. S. F. Dingle and Mr. R. D. Armstrong for the Canadian National Railways; and Mr. G. R. McGregor, Mr. W. S. Harvey, Mr. H. W. Seagrim, Mr. S. W. Sadler for Trans-Canada Air Lines, and Mr. J. A. Wilson and Mr. J. W. Beech, Auditors.

13. Your Committee also wishes to express its appreciation to Mr. McGregor his officials, and T.C.A. crew for a flight on board Trans-Canada Air Lines Viscount over the St. Lawrence Seaway Development project which took place on Wednesday, July 16.

14. A copy of the Minutes of Proceedings and Evidence adduced in respect of the matters referred to is appended.

Respectfully submitted,

W. EARLE ROWE,
Chairman.

MINUTES OF PROCEEDINGS

FRIDAY, July 11, 1958

(1)

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government held its organization meeting at 10.30 o'clock a.m.

Members present: Messrs. Bourbonnais, Broome, Chown, Fisher, Grills, Gundlock, Hardie, Loiselle, Martini, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Rynard, and Smith (*Calgary South*).—(15).

The Clerk of the Committee attending, on motion of Mr. Broome, seconded by Mr. Martini, and there being no further nominations, Honourable W. Earl Rowe was elected Chairman.

Mr. Rowe took the Chair, thanked the Members for his election and proceeded to the routine business.

On motion of Mr. Chown, seconded by Mr. Fisher,
Resolved,—That Mr. Tassé be elected Vice-Chairman.

On motion of Mr. Chown, seconded by Mr. Fisher,
Resolved,—That the Committee recommend to the House that the quorum be 10 members.

On motion of Mr. Pascoe, seconded by Mr. Martini,
Resolved,—That the Committee ask power to print, from day to day, 1,000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence.

On motion of Mr. Martini, seconded by Mr. Smith,
Resolved,—That the Committee seek authorization to sit while the House is sitting.

After discussion on the most suitable hours of sitting of the Committee, beginning Monday July 14, on motion of Mr. Broome, seconded by Mr. Fisher,
Resolved,—That the Committee be called for 9.30 o'clock a.m.

The Chairman reminded the Members that the practice for this Committee was to hold three meetings every day until completion of its business during which meetings officials of the Canadian National Railways and of Trans-Canada Air Lines would be in continuous attendance, and that it was customary to begin with the Canadian National Railways Annual Report.

The Chairman referred briefly to a letter of the President of Trans-Canada Air Lines inviting the members of the Committee to a special flight over the St. Lawrence Seaway Development as soon as practicable.

On motion of Mr. Rynard, the Committee adjourned until Monday, July 14, at 9.30 o'clock a.m.

MONDAY, July 14, 1958

(2)

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government met at 9.30 o'clock a.m. The Honourable W. Earl Rowe, Chairman, presided.

Members present: Messrs. Broome, Carter, Chevrier, Creaghan, Fisher, Grills, Gundlock, Hardie, Kennedy, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robichaud, Robinson, Rowe, Smith (*Calgary South*), Smith (*Simcoe North*), and Mr. Tassé. (19).

In attendance: The Honourable George H. Hees, Minister of Transport; Mr. Donald Gordon, Mr. S. F. Dingle, Mr. R. D. Armstrong, respectively President and Chairman of the Board, Vice-President (Operations), Vice-President (Accounting and Finance) of the Canadian National Railways.

The Chairman referred to the Orders of Reference of Wednesday, July 9, which were taken as read.

The Committee proceeded to the consideration of the 1957 Annual Report of the Canadian National Railways.

Mr. Donald Gordon was called. He read the Annual Report and made an explanatory statement respecting the 1958 revised Budget (Capital and Operating).

In answering questions, he was assisted by Messrs. Dingle and Armstrong.

Before adjournment, Mr. Chevrier asked Mr. Gordon for a statement on the dispute concerning the non-operating unions. Mr. Gordon undertook to provide an answer at the next meeting.

At 12.30 o'clock the Committee adjourned until 3.30 o'clock this day.

AFTERNOON MEETING

(3)

The Committee resumed at 5.30 o'clock. The Chairman, The Honourable W. Earl Rowe, presided.

Members present: Messrs. Bourbonnais, Broome, Carter, Creaghan, Fisher, Fraser, Martini, Monteith (*Verdun*), Pascoe, Rowe, Smith (*Calgary South*), Smith (*Simcoe North*), and Tassé. (13).

In attendance: Same as at morning sitting.

The Committee continued its examination of the Canadian National Railways Annual Report.

Mr. Donald Gordon provided answers to questions which were outstanding and was further examined.

At 6.00 o'clock, the Committee adjourned until 8.00 o'clock in the evening.

EVENING SITTING

(4)

The Committee resumed at 8.00 o'clock. The Chairman, the Honourable W. Earl Rowe, presided.

Members present: Messrs. Bourbonnais, Broome, Carter, Chown, Creaghan, Fisher, Fraser, Grills, Gundlock, Kennedy, Loiselle, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robichaud, Rowe, Smith (*Calgary South*), Smith (*Simcoe North*), and Tassé.—(20)

In attendance: Same as at morning and at afternoon sittings.

Mr. Gordon's examination was continued.

In answer to Mr. Broome the witness reviewed and summarized the Management's arrangements of the Queen Elizabeth Hotel. He undertook to file with the Committee certain operating figures on the C.N.R. Hotels (*See Appendix I*)

On motion of Mr. Broome, seconded by Mr. Smith (*Simcoe North*), the 1957 Annual Report of the Canadian National Railways was adopted.

At 10.45 o'clock p.m. the Committee adjourned until Tuesday, July 15, at 9.30 o'clock a.m.

TUESDAY, July 15, 1958.

(5)

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government met at 9.30 o'clock a.m. this day. The Honourable W. Earl Rowe, Chairman, presided.

Members present: Messrs. Bourbonnais, Broome, Carter, Chevrier, Chown, Creaghan, Fisher, Fraser, Grills, Gundlock, Hardie, Kennedy, Loiselle, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Rynard, Smith (*Calgary South*), Smith (*Simcoe North*), and Tassé.—(23)

In attendance: The Honourable George H. Hees, Minister of Transport; Mr. Donald Gordon, Mr. S. F. Dingle, Mr. R. D. Armstrong, respectively President and Chairman of the Board, Vice-President (Operations), Vice-President (Accounting and Finance) of the Canadian National Railways.

The Committee considered the 1958 Operating and Capital Budget (Revised and as tabled in the House on July 14) of the Canadian National Railways.

Mr. Donald Gordon was recalled.

By unanimous consent, the Committee reverted to the C.N.R. Annual Report, and Mr. Gordon read a supplementary statement on dieselization, and was further examined.

Mr. Gordon, referring to the Budget, made an introductory statement thereon.

Mr. Gordon was examined at some length on safety signals and highway crossing protection. In the course of his examination, he made a specific statement on depreciation accounting on steam locomotives.

On motion of Mr. Smith (*Simcoe North*), seconded by Mr. Chevrier, the above Budget (1958) was adopted.

The Committee then proceeded to the consideration of the Canadian National (West Indies) Steamships Limited Annual Report.

Mr. Gordon read the Report and was examined, particularly on the registration and sale of certain ships.

On motion of Mr. Martini, seconded by Mr. Chown, the said Annual Report was adopted.

Mr. Gordon then read the 1958 Budget and on motion of Mr. Smith (*Simcoe North*), seconded by Mr. Martini, the said Budget was adopted.

The Committee then turned to the Canadian Railways Securities Trust. This Report was adopted on motion of Mr. Kennedy, seconded by Mr. Tassé.

The Committee then considered the Auditor's Report both for the Canadian National Railways and the Canadian National (West Indies) Steamships Limited.

Mr. J. A. Wilson of George A. Touche & Co. was called. He was assisted by Mr. J. W. Beech. Mr. Wilson made a statement on the depreciation accounting. The Auditors' Report was adopted on motion of Mr. Martini, seconded by Mr. Smith (*Simcoe North*).

The Chairman expressed the Committee's appreciation to Messrs. Gordon, Dingle and Armstrong for the manner in which they appeared, and to the other C.N.R. officials for the diligence with which they provided answers to questions.

It was agreed to consider the items of the Estimates referred to the Committee at the afternoon meeting.

At 12.40 p.m. the Committee adjourned until 3.30 p.m. this day.

AFTERNOON SITTING

(6)

The Committee resumed at 3.30 p.m. The Chairman, Honourable W. Earl Rowe, presided.

Members present: Messrs. Bourbonnais, Broome, Carter, Chevrier, Chown, Creaghan, Fisher, Fraser, Gundlock, Kennedy, Loiselle, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robichaud, Rowe, Rynard, Smith (*Calgary South*), Smith (*Simcoe North*), and Tassé.—(21)

In attendance: Same as at morning sitting.

The Committee considered items 431, 432, 442, 443 of the Main Estimates 1958-59, and item 635 of the Supplementary Estimates of 1958-59 and agreed to recommend their approval to the House.

On motion of Mr. Chown, seconded by Mr. Pascoe, Mr. Gordon's examination was concluded and he was retired.

The Committee then proceeded to the consideration of the Annual Report of Trans-Canada Air Lines, the printed Minutes of Proceedings and Evidence appearing in issue No. 2.

TUESDAY, July 29, 1958.

(8)

The Sessional Committee on Railways, Air Lines and Shipping met at 10 o'clock this day *in camera* to discuss its Third Report to the House. The Chairman, the Honourable Earl W. Rowe, presided.

Members present: Messrs. Bourbonnais, Carter, Drysdale, Martini, Mitchell, Robichaud, Robinson, Rowe, Smith (*Simcoe-North*) and Tassé—(10).

The Chairman tabled copies of a draft report for the consideration of the Committee.

After a brief discussion, on motion of Mr. Robichaud, seconded by Mr. Robinson, the said draft report was adopted.

Ordered,—That the Chairman present the draft report as the Committee's third report to the House.

The Committee adjourned to the call of the Chair.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

APPENDIX I

*Canadian National Hotels Limited**Summary of Profit and Loss**Railway-operated hotels.**Year ended December 31, 1957.*

	Profit or (Loss)
Bessborough	\$ (62,482)
Charlottetown	(30,778)
Chateau Laurier	182,882
Fort Garry	20,969
Jasper Park Lodge	85,671
Macdonald	470,770
Newfoundland	129,129
Nova Scotian	69,496

EVIDENCE

MONDAY, July 14, 1958,
9:30 a.m.

The CHAIRMAN: Gentlemen, I observe a quorum. We will begin this committee without further preliminaries.

Is it your pleasure that the president, Mr. Gordon, read the report before any questions are asked, or is it the desire of the committee to ask questions as we proceed? I think it would be preferable for Mr. Gordon to read the report, is that satisfactory?

Mr. Gordon will introduce his associates who are here with him.

Mr. CHEVRIER: Is the president going to make a short statement prior to reading this report? I think that has been the customary practice in the past.

Mr. DONALD GORDON (*President, Canadian National Railways*): I did not intend to make such a statement. I think it would be satisfactory if we proceed with the report and then go back over it later.

Mr. Chairman, first of all I would like to introduce to the committee Mr. S. F. Dingle, vice president of operations, and Mr. R. D. Armstrong, vice president of accounting and finance. These gentlemen are here to assist me with details in answering your questions.

I will commence reading the report which you have in front of you. I would suggest that we take the letter of transmittal as read, Mr. Chairman.

CANADIAN NATIONAL RAILWAYS

MONTREAL
MARCH 1, 1958.

DONALD GORDON
Chairman and President

The Honourable George Hees, M.P.,
Minister of Transport,
Ottawa.

Dear Sir:

On behalf of the Board of Directors I submit herewith the Annual Report of Canadian National Railways for the year 1957.

In September 1957, the Honourable H. J. Symington, C.M.G., Q.C., who had rendered distinguished service to the Board since 1936, retired as a director. By order in Council No. 1251, Mr. Edward W. Bickle of Toronto was appointed a director, effective October 1.

The Management acknowledges with gratitude the loyalty and devotion to duty of officers and employees throughout the System.

Yours truly,

(Signed) D. Gordon.

The annual report itself commences as follows:

The year 1957 was financially unrewarding for Canadian National Railways. Although significant improvements were made in facilities and opera-

tions, a combination of lower traffic and higher wage and material costs produced a deficit of \$29.6 million.

The following table summarizes the results for 1957 and for each year since the passage of the Canadian National Capital Revision Act in 1952:

Mr. Chairman, with your permission may we take the table appearing here as read? You will observe that the column for 1957 shows an over-all deficit for the year of \$29.6 million.

	1957	1956	1955	1954	1953	1952
	(Millions of Dollars)					
Operating revenues	\$753.2	\$774.8	\$683.1	\$640.6	\$696.6	\$675.2
Operating expenses	734.6	703.3	629.0	626.4	659.0	634.8
Net operating revenue	18.6	71.5	54.1	14.2	37.6	40.4
Taxes, rents, less other income	11.2	13.6	10.4	10.5	8.0	14.9
Available for fixed charges ..	7.4	57.9	43.7	3.7	29.6	25.5
Fixed charges	37.0	31.8	33.0	32.5	29.4	25.4
Surplus or deficit	\$29.6	\$26.1	\$10.7	\$28.8	\$ 0.2	\$ 0.1

This record reflects not only variations in the volume of business but also the unfavourable effects of the growing disparity between wage and material cost increases on one hand and freight rate increases on the other. By way of illustration, if the 1957 results were re-stated in terms of the 1951 average revenue per ton-mile, average prices and average hourly earnings, the record would show a surplus of nearly \$30 million. This is shown by the charts on the following page.

Freight

The volume of freight traffic, measured in revenue ton miles, decreased by 12.5% during 1957, but the revenue from this business dropped less sharply because of an increase in average revenue per ton-mile.

Freight revenues, which accounted for nearly four-fifths of total operating revenues, amounted to \$587.3 million, a decline of \$25.5 million or 4.2%. Revenues from other freight services, shown on page 30, declined by 7.6% to \$17.6 million.

Both tonnage and average haul, the two components of the ton-mile measure, decreased during the year. In 1957 Canadian National carried a total of 88.9 million tons, compared with 99.0 million in 1956, while the average length of haul fell to 413 miles, from 423 miles in the previous year.

Many of the reductions in traffic volume occurred in the low-rated bulk commodities. This change in the "mix" of traffic, together with slightly higher freight rates, caused the average revenue received by the railway for hauling one ton of freight one mile to rise from 1.461 cents in 1956 to 1.601 cents in 1957.

A general freight rate increase of 11% was granted by the Board of Transport Commissioners effective January 1, 1957. This replaced the previous interim award of 7% authorized in June, 1956. The railways' original application, filed in May 1956, sought a 15% general increase.

In August 1957, the railways applied for a further 10% increase on the rates existing at that time. Subsequently, the Board of Transport Commissioners approved an increase of 3.6% effective January 15, 1958, but implementation of this increase was suspended pending review by the Governor-in-Council, following an appeal by eight provinces.

Subsidies payable under the Maritime Freight Rates Act were increased by legislation from 20% to 30% for movements from the Maritimes to other Canadian points. Corresponding rate reductions passing on the benefit to shippers were made effective July 1, 1957, so that railway revenues were not directly affected.

In the United States, the Interstate Commerce Commission authorized general increases ranging from 4% to 7% in all territories effective August 26, 1957. International rates between Canada and the United States were increased in the same proportion with the exception of class rates which were raised 14%.

Carload incentive rates, designed to induce shippers to load cars closer to physical capacities, were extended during the year to a broad range of commodities moving between most of the major points in Western Canada.

In October, the Canadian National inaugurated a new "piggyback" service between Montreal and Toronto, in which highway common carrier trailers are carried on railway flatcars. The CNR also continued to operate railway-owned trailers on flatcars.

Passenger

Passenger revenues rose for the third year in succession. While the total number of passengers declined from 16.0 million in 1956 to 13.9 million in 1957, revenues increased 2.1% to \$46.8 million. This was the result of higher passenger fares and an increase in the average journey per passenger from 94 to 108 miles. Revenue per passenger mile rose from 3.05 cents to 3.12 cents.

The number of commuters declined by 11.1% to 5.2 million in 1957. Commuters represented 37.4% of all passengers carried, and contributed 3.0% of passenger revenues.

During 1957, Canadian National carried a total of 95,500 immigrant passengers from eastern Canadian ports. This involved 234 special trains, as well as the operation of a considerable number of extra sections of regular trains.

Revenues from other passenger services, including sleeping, parlor, dining, and buffet car operations, increased by \$663,000 to \$11.2 million.

Increases in passenger fares of 10% for first class and 5% for coach class were authorized and were implemented selectively on Canadian lines effective September 1. Charges for parlor car seats and duplex roomettes were also increased during the year.

As the final instalment of fare increases authorized by the Board of Transport Commissioners in 1955, commuter fares in all commutation areas raised on May 1, 1957, by 25% of the 1950 level of fares.

Continued efforts were made to stimulate rail passenger travel through promotion of the family fare plan, bargain coach excursions, and package tours.

Express

Revenues earned by the Express Department were \$42.2 million, a slight decrease from the peak year of 1956. A lower volume of shipments more than offset higher unit charges.

Communications

Revenues of Canadian National Communications reached a new record of \$20.7 million, an increase of 4.4% over the previous high in 1956. Fewer messages were sent during 1957—12.3 million compared with 12.9 million in 1956—but higher message rates, including the new Canadian message tariff which came into effect on October 16, served to maintain transmission revenues. Non-transmission revenues from private wire services, equipment rentals and radio broadcast and television services showed substantial gains.

Other Revenues

Mail revenues increased by 12.8% to 10.5 million as the result of the payment of higher rates by the Post Office Department. In March 1957, the railways were granted an interim increase in Canadian mail rates of 7% retroactive to July 3, 1956, with a further advance of 4% retroactive to January 1, 1957.

OPERATING EXPENSES

Total railway operating expenses during 1957 amounted to \$734.6 million, an increase of \$31.3 million. The major factors were wage and material cost increases of \$31.8 million and higher depreciation charges.

Road maintenance expenses rose by \$13.4 million or 9.5% during 1957. About one-third of the increase was attributable to a bigger road maintenance program occasioned by main-line improvements in the Western Region.

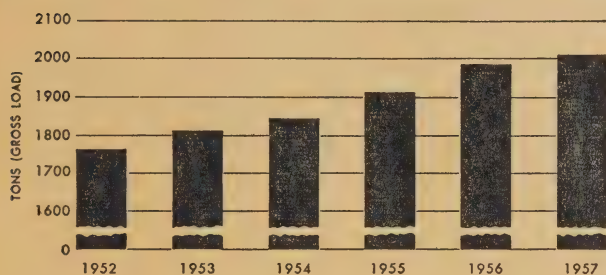
Although the amount of work performed in equipment maintenance was somewhat less than in the previous year, expenses rose by \$19.7 million or 13.9%. The increase resulted from higher wage and material costs and additional depreciation charges, including a supplementary charge of \$7.5 million for steam locomotive depreciation.

Transportation expenses, after absorbing wage and material price increases of \$16.2 million, declined by \$3.8 million during 1957. This was the result of the lower traffic volume.

Freight Train Performance

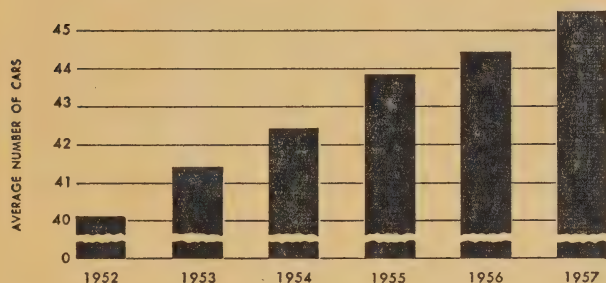
Continued efforts to improve train operations have resulted in...

... greater loads per train



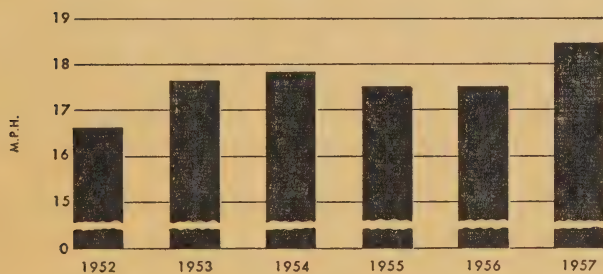
AVERAGE GROSS LOAD PER TRAIN (TONS)	
1952	1,771
1953	1,815
1954	1,848
1955	1,915
1956	1,980
1957	2,010

... longer trains



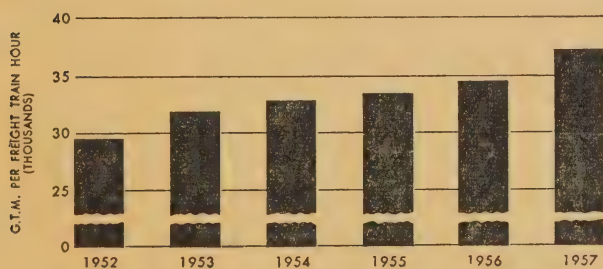
AVERAGE NUMBER OF CARS PER TRAIN	
1952	40.1
1953	41.4
1954	42.4
1955	43.8
1956	44.4
1957	45.5

... faster trains



AVERAGE SPEED OF FREIGHT TRAINS (M.P.H.)	
1952	16.6
1953	17.6
1954	17.8
1955	17.5
1956	17.5
1957	18.4

... and thus in better freight train performance



GROSS TON MILES PER FREIGHT TRAIN HOUR	
1952	29,309
1953	31,980
1954	32,841
1955	33,597
1956	34,742
1957	37,017

Wages

Payrolls, by far the biggest item of railway expense, amounted in 1957 to \$427.8 million or 58.2% of the total operating expenses. Including pensions and health and welfare benefits, labour compensation accounted for 63.7% of the railway's 1957 expense dollar.

Wage increases and other benefits applicable to 1957 added \$22.5 million to operating expenses.

Under terms of contracts signed in 1956, both operating and non-operating employees on Canadian lines received wage increases and health and welfare coverage in 1957. By March 1, 1958, a revised health and welfare plan covered all non-scheduled and management employees in Canada.

Under the terms of a three-year agreement concluded on November 1, 1956, non-operating employees on U.S. lines received a further wage increase of seven cents per hour during 1957. Operating employees received a similar wage increase. Both operating and non-operating employees also received a cost-of-living adjustment totalling eight cents an hour during the year. The contracts provide for another wage increase of seven cents an hour during 1958.

On November 12, 1957, fifteen railway unions representing about 77,000 of the company's non-operating employees in Canada served wage and other demands on the railway involving additional annual costs totalling \$77.5 million. The demands included an increase in pay of 11% plus 17 cents an hour; an additional \$8.50 per month contribution by the railway for each employee to the company health and welfare plan; longer vacations; one additional statutory holiday; and establishment of severance pay. The total cost of implementing these demands for all CNR employees would amount to \$113 million annually.

Discussions were held with the representatives of the fifteen unions during November 1957 and ended on December 2 with a union request for conciliation services. A federal conciliation board was appointed early in 1958.

Negotiations for new contracts with the Brotherhood of Locomotive Firemen and Enginemen opened February 20, 1958, with a union request for an 18% pay increase and other benefits that would add a total of \$6.8 million to the company's annual operating expenses. The company earlier had served notice on the union that it intended to exercise its discretion in the need for assignment of firemen to freight and yard diesels. The meetings terminated February 25 after the union declined to discuss the diesel issue on the basis of principles outlined in the report of the Royal Commission under the chairmanship of Mr. Justice R. L. Kellock.

Current contracts with unions representing other running trades will be open for re-negotiation in the spring of 1958.

TAXES, RENTS AND FIXED CHARGES

Taxes paid by the railway amounted to \$16.6 million, an increase of \$1.8 million over 1956.

Rents paid for equipment and facilities fell from nearly \$10.0 million to \$4.1 million, due to a reduction in the use of foreign line cars.

Fixed charges rose from \$31.8 million in 1956 to \$37.0 million. The increase of \$5.2 million was due entirely to higher interest expense, of which \$4.0 million is attributable to new borrowings of \$197.1 million during 1957; the remainder is chiefly a reflection of the impact of interest for the full year on 1956 borrowings. A small saving in interest was obtained through the refunding of \$73.3 million of securities held by the public.

OTHER INCOME

Other income after deductions, as detailed on page 29, dropped 14.6% to \$9.4 million. The decrease was partially attributable to lower profits from land sales and to the inability of the Northern Alberta Railways to pay interest and dividends to the parent companies.

Hotel Operations

The net income of Canadian National Hotels Ltd. amounted to \$1.6 million after depreciation, virtually unchanged from 1956. This result does not include provision for an interest return on invested capital. Increased revenues from convention and tourist business were offset during the year by higher payroll and material costs.

The number of guests accommodated at seven year-round hotels and Jasper Park Lodge totalled 643,196, slightly higher than in 1956.

GROWTH AND PROGRESS

In spite of the decline in traffic in 1957, the Canadian National continued to improve its equipment, modernize its facilities and streamline its methods and techniques.

Progress was reflected in the opening of several important new rail lines bringing mineral and other natural resources to market. New freight and passenger services were put into effect during the year. Freight trains in 1957 were longer and faster, and carried bigger loads than in the year before. Significant advances were made in operating methods and administrative practices.

Many of these improvements involved capital expenditures on a substantial scale the details of which are shown on page 32. The inventory of railway equipment appears on page 36.

New Lines

In 1957, three separate new rail lines were added to the Canadian National System, opening up additional areas of Canada for settlement and development. In Quebec, a 161-mile line from Beattyville to Chibougamau was officially opened in November and work was progressed on a 133-mile line from St. Felicien to Cache Lake, where it will link up with the Beattyville-Chibougamau branch. In New Brunswick, a 23-mile line was opened between Bartibog and the base metal development at Heath Steele. In Manitoba, Canadian National took over operation of a new 31-mile line from Sipiwesk on the Hudson Bay line to the International Nickel Company development at Thompson.

Still in the surveying stage is another new branch line from Optic Lake, on the Sherridon Subdivision, to Chisel Lake, Manitoba, a distance of some 52 miles.

A total of 352 industrial sidings, spurs and track extensions were built during the year, representing 73 miles of new trackage.

Roadway

New rail was applied to 804 miles of track during the year, thereby completing the second largest rail program in thirty years. Part-worn rail was relaid on 308 miles of secondary lines. In the Western Region, the six-year main-line track improvement program moved ahead on schedule in its second year.

On the System as a whole, a total of 3.5 million ties was installed.

The program of lengthening sidings in order to handle longer trains was also continued and, with the work slated for completion in 1958, all sidings from Montreal to Winnipeg will be able to accommodate 100-car trains and those between Winnipeg and Edmonton 117-car trains.

Further progress was made in the mechanization of track maintenance with the purchase of 284 units of roadway machinery.

Signals

The detailed engineering stage was reached in a program for the systematic application of Centralized Traffic Control to more than 4,000 miles of the railway's transcontinental main line. In 1957, CTC installations were completed on 17.5 miles of Grand Trunk Western lines between Flint and Port Huron, Michigan, and also in the eastern section of the Winnipeg terminals.

Yards and Terminals

Progress was made during the year on the company's long range plans for the concentration of train marshalling operations at main strategic centres. Grading at the Cote de Liesse yard in Montreal proceeded on schedule. Plans were advanced for the construction of similar automatic hump retarder yards at Moncton and Winnipeg, and steps were taken to acquire the necessary property. These three hump yards will incorporate the most modern control and communication devices.

An extensive study of freight handling problems in Toronto, where terminal facilities are badly congested, is now under way in collaboration with independent consultants.

Studies were also undertaken for the construction of new yard facilities at Corner Brook and St. John's, Newfoundland.

Meanwhile, the company proceeded with other yard improvements at Port Mann, B.C., Edmonton, Alta., Sarnia, Ont., Joffre, Que., Edmundston and Saint John, N.B., and at Flint, Pontiac, and Battle Creek on the Grand Trunk Western.

To increase the efficiency of freight car handling, train marshalling studies were undertaken and better inter-yard communications were effected by means of through teletype circuits between Montreal, Toronto and Winnipeg, and certain other terminals.

Dieselization

Dieselization by geographic areas, the second phase of the CNR's long range program, made satisfactory progress during the year. This phase was started in 1957 on completion of the company's original five-year plan in which diesel power was applied selectively to specific runs and services.

In the early stages of the program, the maximum utilization made possible by the selective application of diesels yielded very substantial benefits, despite the operation of repair and servicing facilities for both steam and diesel power. The latter stages of dieselization by areas, however, can only be justified by achieving the economies inherent in an orderly elimination of the steam power facilities.

At year end, a new diesel maintenance shop for running repairs was approaching completion at Cote de Liesse yard, and a start had been made on construction of a similar shop at Calder in the Edmonton area. Motive power shops for heavy repairs at Moncton, N.B., Point St. Charles (Montreal) and Battle Creek, Michigan, were being converted from steam to diesel maintenance.

In 1957, diesel operations accounted for 72.9% of freight gross ton miles, 81.6% of yard locomotive hours and 58.0% of passenger car miles. By year end, Canadian National was operating 1,433 diesel units on System lines.

Rolling Stock

The company continued to improve the quality of its transportation equipment by adding new units and by modernizing and renovating older cars. A total of 6,439 new freight cars was taken into service during the year. The net addition to the railway's equipment, allowing for retirements and conversions, amounted to 4,155 cars.

New acquisitions of freight equipment by Canadian National over the past ten years represent just under 40% of the current inventory.

During 1957, eighty-nine units of passenger train equipment were placed in service, consisting of fourteen self-propelled diesel Railiners, five dinette cars, twenty baggage cars and fifty express refrigerator cars.

Service Improvements

A reduction of one hour and 15 minutes was made in the schedule of the Super Continental westbound from Montreal and one hour and 30 minutes westbound from Toronto. The eastbound schedule from Vancouver to Montreal and Toronto was reduced by half an hour.

Improvements were also made in passenger train schedules between Montreal-Toronto-Chicago, Halifax-Montreal and Halifax-Sydney.

Self-propelled Railiners were placed in operation on the following inter-city runs: Truro-Sydney, Moncton-Campbellton, Quebec-Edmundston, Montreal-La Tuque, Montreal Sherbrooke-Island Pond, Regina-Saskatoon-Prince Albert, and Fort Frances-Duluth. These changes in service produced operating economies and in most cases permitted worthwhile reductions in running times.

Following a special survey made by railway officers, a number of improvements were put into effect in Newfoundland rail and coastal operations, and budget submissions were prepared for other improvements involving capital expenditures.

Montreal Terminal Development

A master plan for the development of the 21-acre terminal area surrounding Central Station Montreal was formally accepted by the company in August. The plan, formulated by Webb & Knapp (Canada) Ltd., calls for the construction of a 40-storey, cruciform-shaped office building on Place Ville-Marie. Surrounding the main building will be a multilevel complex of shops, restaurants, a theatre, transportation and parking facilities and other office buildings.

On January 1, 1958, a lease covering 5.9 acres was concluded with Place Ville-Marie Corporation, a fully-owned subsidiary of Webb & Knapp (Canada) Ltd. The agreement provides that a major part of the development is to be completed within five years of the signing of the lease.

During 1957, plans progressed for the construction of a new CNR headquarters office building to be located in the terminal area.

Hotels

The new Queen Elizabeth hotel in Montreal was near completion at the end of 1957, with the official opening planned for mid-April 1958. It is expected that this 21-storey hotel, with its 1,216 rooms, will attract many visitors and convention groups to Montreal.

Plans were also made during the year for a 165-room addition to the Nova Scotian hotel in Halifax.

Communications

The demand for commercial communications service continued to grow during 1957 and Canadian National Communications facilities were again

expanded. Telegraph channel mileage increased by 21% to 610,724 and telephone channel mileage rose by 38% to 142,303.

The joint Canadian National-Canadian Pacific microwave facilities for the CBC television network were extended from Quebec City to Jonquiere and Rimouski during the year. Preliminary surveys were conducted for the extension of this network to Three Rivers, Que. Work was also started on the construction of Canadian National's microwave relay facilities for television and general communications between Sydney, N.S. and St. John's, Nfld.

"Telex" service, inaugurated jointly by Canadian National and Canadian Pacific in 1956 between Canada and overseas countries, was expanded during 1957 to provide service between eleven Canadian cities. At year end, installations were being made in ten additional cities. "Telex" service, providing instantaneous two-way written communication between subscribers' offices, has been highly successful, and the biggest problem has been to obtain equipment fast enough to meet the demand.

Canadian National's message relay operations were further improved during the year with the installation of modern torn-tape facilities at Moncton, Winnipeg and Vancouver. In addition, a semi-automatic switching system is being installed at the relay centre in Montreal.

Work Methods

Further advances were made during the year in the planned application of integrated data processing principles to the mass handling of railway information. This program is designed to increase the effectiveness of the CNR's recording and accounting operations, to provide improved control data, and to reduce clerical costs.

As part of this program, Canadian National brought its new Computer Centre in Montreal into operation during the year, and this centre is being utilized to process a large part of the railway payroll. The centre houses a medium-scale magnetic-drum computer which, with the help of smaller machines, is currently performing the enormously detailed calculations incidental to payroll operations and is producing completed cheques at the rate of 1,500 per hour.

Electronic data processing techniques are also being applied to the field of recording and tracing the movements of freight cars.

The introduction of data processing machines is an important phase of a general approach to the improvement of methods of performing work, whether of a clerical or production nature. The streamlining of office routines and procedures, the reorganization of work groups in repair shops, and improvements in materials handling techniques are representative of other efforts that are being made in this direction.

Research and Experimentation

Canadian National continued to place emphasis on research and experimentation during 1957. To keep the railway in step with the changing needs of the travelling and shipping public, studies were made of new equipment, materials and processes effecting virtually every phase of railway activity.

Technical research resulted in improvements in a wide variety of railway equipment, including rail fastenings, locomotive wheels and passenger car upholstery. In addition, a continuing program of laboratory testing led to new specifications for the purchase of items such as oil filters, rolling stock components and hotel furnishings.

Two new versatile types of freight equipment are under development. One type, a heated box car, is being designed to give sufficient protection to perishable traffic during the winter months, without losing the advantages of the standard box car during the rest of the year. The other type, a multi-purpose box car, has adjustable doors that can be adapted to the dimensions and loading characteristics of different commodities.

During the year, Canadian National entered upon a new and promising field of research activity, with the organization of an Operational Research section in the Department of Research and Development. This new section will seek to apply to railway problems the methods and techniques of this new branch of applied science that have proven their worth in other fields of activity.

GENERAL

Industrial Development

Company officers worked closely with both municipal authorities and business interests to promote orderly industrial development in areas served by the railway. In the Maritimes, industrial survey of towns and cities were under preparation by the company as part of a co-ordinated regional program to stimulate industrial development in the eastern provinces.

St. Lawrence Seaway Project

Construction of the St. Lawrence Seaway and associated power development projects necessitated a number of changes in CNR facilities. A 40-mile diversion of the railway's main line between Cornwall and Cardinal in Ontario was completed and placed in operation during the year. Negotiations with Ontario Hydro covering apportionment of the costs of this diversion were satisfactorily concluded.

The seaway project also made necessary the construction of new highway approaches to Victoria Bridge. These new approaches, in conjunction with lift spans, will allow an uninterrupted flow of vehicular traffic across the bridge. Construction of a railway diversion for accommodation of railway traffic around the St. Lambert lock has been undertaken by CNR pending final allocation of cost.

Co-operation under the Canadian National-Canadian Pacific Act, 1933

Studies were conducted by both railways during the year to determine the feasibility and value of further pooling arrangements but no new pool services were instituted.

Corporate Reorganization

While there were still 45 companies in the complex of corporate identities comprising the Canadian National System at the end of 1957, progress was made in studies aimed at the elimination of a number of these companies in 1958.

THE YEAR IN PERSPECTIVE

The financial results for 1957 are a matter of particular concern because of what they portend for the future.

Mention has already been made (page 5) of the growing imbalance between the prices paid by the railway for material and labour services on the one hand, and the rates charged for railway services on the other. Not only does this

condition obscure (especially in a period of falling traffic) the very real improvements that have been made in operating performance but it threatens to frustrate the long-term objective that Canadian National should, on the average, be able to pay its way taking the good years with the bad.

The financial outlook for the immediate future is overshadowed by the implications of the wage and other demands put forward by the unions, particularly those representing the non-operating employees and the firemen. These demands, if implemented, would inevitably result in deficits greater than any recorded since the Canadian National began operations as a unified system.

It is evident that CNR, in common with other railroads in North America, has entered upon a period of transition accompanied by severe financial stress. Along with the need to adapt to an increasingly competitive environment and to rapid changes in the technology of transportation, there arises the collateral need for an acceptance, on the part of those employed in the industry as well as the public they serve, of the implication of these changes. Specifically this includes a re-appraisal of traditional methods and practices, the elimination of functionally duplicate facilities and operations, and the abandonment of unprofitable services that can no longer be justified. This in turn requires a proper climate of understanding, and a willingness, on the part of all interests, to make common cause of improved efficiency in transportation.

**Financial
and Statistical
Statements**

FOR THE YEAR ENDED

**December 31,
1957**

AUDITORS' REPORT

To The Honourable The Minister of Transport,
Ottawa, Canada.

We have examined the books and accounts of the Canadian National Railway System for the year ended December 31, 1957. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the above consolidated balance sheet and the related consolidated income statement are prepared on a basis consistent with that of the preceding year except for the additional provision for depreciation referred to in Note 1 which we approve, and subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting referred to in Note 1,

February 25, 1958.

are properly drawn up so as to give a true and fair view of the state of the System's affairs at December 31, 1957 and of the results of operations for the year then ended, according to the best of our information and the explanations given to us and as shown by the books of the System.

We further report that in our opinion proper books of account have been kept by the System and the transactions of the System that have come under our notice have been within the powers of the System.

We are also submitting a supplementary explanatory report.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 1957

Note 1. Property Investment:

Additions since January 1, 1923 have been recorded at cost and properties and equipment brought into the System at January 1, 1923 are included at the values appearing in the books of the several railways now comprising the System to the extent that they have not been retired or replaced.

Depreciation on Canadian Lines: Depreciation accounting as adopted for equipment in 1940, for hotel properties in 1954 and for track and road structures and all other physical properties except land in 1956 has been continued in 1957. The depreciation rates used are based on the estimated service life of the properties but do not provide for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force, nor for extraordinary obsolescence resulting from the introduction of more efficient equipment. In recognition of the obsolescence now occurring with steam locomotives, supplementary depreciation amounting to \$7,500,000 has been charged to operating expenses this year to provide in part for the deficiency in the depreciation reserves which will arise from the early retirement of steam locomotives and their replacement by diesel power.

Depreciation on U.S. Lines: Replacement accounting for track and depreciation accounting for equipment and other physical property except land has been continued in accordance with the regulations of the Interstate Commerce Commission.

Note 2. Buffalo and Lake Huron Railway Company:

The railway line of this company has been operated as a part of the System for many years under a lease arrangement. Pursuant to an offer made in November 1956 to the shareholders of the company, all the shares of the capital stock have been purchased. The assets and liabilities of this company, including \$3,148,856 for property investment and \$2,023,765 of long term debt, have been consolidated with the System accounts.

Note 3. Material and Supplies:

The inventory has been priced at laid down cost based on weighted average cost for ties, rails and fuel and latest invoice price for new materials in general stores, and at estimated utility or sales value for usable second hand, obsolete and scrap materials.

Note 4. Capital Stock:

The capital stock of the Canadian National Railway Company (other than the four per cent preferred stock) and the capital investment of Her Majesty in the Canadian Government Railways are included in the net debt of Canada and disclosed in the historical record of government assistance to railways as shown in the Public Accounts of Canada.

Note 5. Pensions:

At December 31, 1957 an amount of \$177,967,669 had been accumulated in the Pension Trust Fund in respect of pension liabilities. This amount represents provision for pensions in force under the 1935 plan, but not for pensions granted under prior plans or for increased benefits granted to employees who were contributors under the 1935 plan and who retired on pension prior to January 1, 1952. Consistent with its established practice the railway has made no transfer or allocation of funds for pensions conditionally accruing in respect of employees now in service.

Note 6. Major Commitments:

(a) Chicago & Western Indiana Railroad Company:

Pursuant to a joint supplemental lease dated May 1, 1952, the Grand Trunk Western Railroad Company and four other proprietary-tenant companies are obligated to pay, as rental, sinking fund payments sufficient to retire bonds at maturity and interest as it falls due with respect to First Collateral Trust Mortgage $4\frac{3}{8}\%$ Sinking Fund Bonds Series "A" due May 1, 1982. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of the other tenant companies. The bonds outstanding at December 31, 1957 total \$57,375,000.

(b) Detroit & Toledo Shore Line Railroad Company:

The Grand Trunk Western Railroad Company is jointly and severally liable as guarantor of principal, interest and sinking fund payments with respect to \$2,850,000 First Mortgage $3\frac{1}{4}\%$ -30 year Series "A" Bonds, due December 1, 1982, of the Detroit & Toledo Shore Line Railroad Company.

CONSOLIDATED INCOME STATEMENT

	1957	1956
Railway Operating Revenues		
Freight services.....	\$ 604,932,271	\$ 631,880,409
Passenger services.....	58,035,602	56,397,814
Express.....	42,926,608	43,269,566
Communications.....	20,750,060	19,881,534
All other.....	26,521,423	23,371,324
Total operating revenues.....	<u>753,165,964</u>	<u>774,800,647</u>
Railway Operating Expenses		
Road maintenance.....	153,760,070	140,379,408
Equipment maintenance.....	161,961,616	142,251,485
Traffic.....	14,507,955	13,441,595
Transportation.....	342,364,345	346,127,246
Miscellaneous operations.....	7,066,328	7,201,150
General.....	54,895,727	53,902,678
Total operating expenses.....	<u>734,556,041</u>	<u>703,303,562</u>
Net revenue from railway operations.....	<u>18,609,923</u>	<u>71,497,085</u>
Taxes and Rents		
Railway tax accruals.....	16,573,037	14,733,987
Equipment rents—Net debit.....	3,856,235	9,758,278
Joint facility rents—Net debit.....	229,065	213,010
Total taxes and rents.....	<u>20,658,337</u>	<u>24,705,275</u>
Net railway operating income.....	<u>2,048,414</u>	<u>46,791,810</u>
Other Income		
Income from lease of road.....	45,362	45,362
Miscellaneous rent income.....	1,674,537	1,649,726
Income from non-transportation properties.....	1,436,271	1,921,301
Hotel income.....	1,606,824	1,629,836
Income from separately operated properties.....	—	595,590
Dividend income.....	374,061	361,666
Interest income.....	2,919,346	2,754,680
Miscellaneous income.....	1,513,452	3,318,771
Profit and loss—Net Credit.....	485,479	236,232
Total other income.....	<u>10,055,332</u>	<u>12,513,164</u>
Deductions from Income		
Miscellaneous rents.....	417,635	682,501
Miscellaneous income charges.....	190,144	762,531
Total deductions from income.....	<u>607,779</u>	<u>1,445,032</u>
Net income available for fixed charges.....	<u>7,399,139</u>	<u>57,859,942</u>
Fixed Charges		
Rent for leased roads.....	161,898	476,054
Interest on bonds, debentures and equipment obligations.....	24,766,117	26,472,551
Interest on government loans.....	11,049,277	3,786,009
Interest on other debt.....	308,155	312,302
Amortization of discount on bonds.....	686,233	736,075
Total fixed charges.....	<u>36,971,680</u>	<u>31,782,991</u>
Deficit or Surplus	<u>\$ 29,572,541</u>	<u>\$ 26,076,951</u>

OPERATING REVENUES

	1957	1956	1957	1956
Freight Services				
Freight.....	\$587,273,516	\$612,767,267		\$ 42,189,962
Switching.....	6,131,342	6,707,379		\$ 42,416,140
Cartage and transport.....	4,865,000	5,144,234		736,646
Demurrage.....	2,857,482	3,270,839		42,926,608
Water transfers.....	1,579,867	1,544,242		
Grain elevator.....	1,035,439	1,175,561		
Wharves.....	917,919	990,182		
Storage.....	271,706	280,705		
Total.....	604,932,271	631,880,409	20,739,214	19,869,753
Passenger Services			10,846	11,781
Passenger.....	46,818,462	45,843,419		
Sleeping and parlor car.....	5,140,915	4,892,857		
Dining and buffet car.....	4,455,867	4,021,755		
Water transfers.....	523,359	556,391		
Station, train and boat privileges.....	493,940	443,364		
Restaurants.....	328,475	373,608		
Baggage transportation and storage.....	258,275	250,689		
Miscellaneous.....	16,309	15,731		
Total.....	58,035,602	56,397,814	26,521,423	23,371,324
Express				
Express department.....				\$ 42,189,962
Railway Express Agency.....				736,646
Total.....			42,926,608	43,269,566
Communications				
Communications department.....				20,739,214
Commissions—U.S.....				10,846
Total.....			20,750,060	19,881,534
All Other				
Mail.....				10,549,873
Rents of buildings and other property.....				1,668,916
Joint facilities.....				242,073
Miscellaneous.....				14,060,561
Total.....			26,521,423	23,371,324
Total Operating Revenues.....			\$753,165,964	\$774,800,647

OPERATING EXPENSES

ROAD MAINTENANCE

	1957	1956
Superintendence.....	\$ 11,281,130	\$ 10,299,105
Track and Roadway		
Track and roadway maintenance.....	50,891,829	47,313,165
Ties.....	804,457	927,859
Rails.....	1,807,552	414,408
Other track material.....	4,175,248	3,402,029
Ballast.....	253,455	304,723
Fences, snowsheds and signs.....	1,724,204	1,576,574
Small tools and supplies.....	2,623,916	2,209,672
Removing snow, ice and sand.....	4,569,254	6,789,824
Total.....	66,849,895	62,938,254
Bridges and Structures		
Tunnels, bridges and culverts.....	6,213,508	5,746,631
Station and office buildings.....	6,446,848	5,787,681
Roadway buildings.....	965,721	876,851
Water and fuel stations.....	1,183,283	1,268,245
Shops and enginehouses.....	4,097,208	3,703,635
Grain elevators.....	100,135	98,860
Wharves.....	406,524	425,243
Power plant systems.....	559,223	544,323
Other structures.....	36,356	39,161
Total.....	20,008,786	18,490,630
Communication and Signal Systems		
Communication systems.....	10,430,743	8,411,719
Signals.....	2,845,769	2,524,903
Total.....	13,276,512	10,936,622
Miscellaneous		
Roadway machines.....		3,633,469
Public improvements.....		831,458
Injuries to persons.....		987,251
Insurance.....		348,513
Stationery.....		186,662
Other expenses.....		1,362,632
Right-of-way expenses.....		83,335
Total.....		7,428,320
Depreciation and Retirements		
Road property depreciation.....		35,164,598
Road property retirements.....		111,669
Dismantling retired road property.....		475,063
Total.....		35,751,335
Joint Facilities		
Maintaining joint facilities— <i>Net Credit</i>		885,903
Total Road Maintenance.....		\$153,760,070
		\$140,379,408

OPERATING EXPENSES

EQUIPMENT MAINTENANCE		1957	1956
Superintendence.....	\$ 4,449,726	\$ 4,099,943	
Machinery			
Shop and power plant machinery.....	4,605,407	4,162,097	
Equipment			
Steam locomotives.....	19,028,457	24,629,687	
Diesel locomotives.....	20,412,450	15,747,591	
Freight train cars.....	41,009,254	37,628,570	
Passenger train cars.....	17,955,771	15,639,600	
Vessels.....	1,920,634	1,467,658	
Work equipment.....	4,317,570	4,053,418	
Express equipment.....	876,833	849,659	
Cartage and transport equipment.....	1,634,121	1,777,255	
Other equipment.....	63,148	64,312	
Total.....	107,218,238	101,877,750	
Miscellaneous			
Injuries to persons.....	859,308	814,437	
Insurance.....	386,254	244,334	
Stationery.....	160,144	158,509	
Other expenses.....	1,367,819	253,466	
Total.....	2,773,525	1,470,746	
Depreciation and Retirements			
Other equipment and machinery.....	1,432,909	1,529,783	
Dismantling retired machinery.....	15,511	22,571	
Dismantling retired equipment.....	414,600	339,685	
Rolling stock and vessels depreciation.....	33,639,891	29,026,517	
Supplementary dep'n.—steam locomotives.....	7,500,000	—	
Total.....	43,102,911	30,918,556	
Joint Facilities			
Maintaining joint facilities— <i>Net Credit</i>	138,191	277,607	
Total Equipment Maintenance.....	\$161,961,616	\$142,251,485	
Traffic			
Superintendence.....	\$ 5,044,429	\$ 4,700,299	
Agencies.....	5,404,674	5,203,813	
Advertising.....	1,975,586	1,737,000	
Associations.....	301,606	243,479	
Stationery.....	872,912	792,420	
Other expenses.....	75,185	21,238	
Total.....	13,674,392	12,698,249	
Colonization and agriculture.....	338,495	311,872	
Industrial development.....	239,504	308,703	
Development and natural resources.....	165,564	122,771	
Total Traffic.....	\$ 14,507,955	\$ 13,441,595	

OPERATING EXPENSES—(Concluded)

TRANSPORTATION

	1957	1956	1957	1956
Supervision				
Superintendence.....	\$ 8,775,943	\$ 8,130,957	Cartage and transport operation.....	2,644,473
Dispatching.....	4,611,505	4,429,898	Stationery.....	1,614,095
			Other expenses.....	1,809,438
Total.....	13,387,448	12,560,855	Total.....	63,509,848
Station Services			Casualty Costs	
Station employees.....	47,599,637	46,777,585	Insurance.....	356,615
Weighing, inspection and demurrage.....	195,987	213,736	Clearing wrecks.....	1,151,044
Coal and ore wharves.....	179,163	185,451	Damage to property.....	285,152
Station expenses.....	4,217,139	3,725,697	Loss and damage—freight.....	4,607,472
			Loss and damage—baggage.....	2,590
Total.....	52,191,926	50,902,469	Injuries to persons.....	2,337,779
			Total.....	8,740,652
Yard Services			Joint Facilities	
Yardmasters and clerks.....	11,672,167	11,249,526	Operating joint yards & terminals— <i>Net Credit</i>	602,062
Yard trainmen.....	21,885,764	22,227,499	Operating joint facilities— <i>Net Credit</i>	702,860
Yard switchmen.....	1,868,026	1,889,092	Total.....	1,304,922
Yard engine-men.....	15,038,065	15,172,770	Total Transportation.....	\$342,364,345
Yard locomotive fuel and power.....	4,746,214	6,054,798		
Yard locomotive water.....	1,106,946	148,423	MISCELLANEOUS OPERATIONS	
Yard locomotive other supplies.....	339,626	364,038	Dining and buffet service.....	\$ 5,933,745
Yard enginehouse expenses.....	3,504,655	3,625,292	Restaurants.....	324,473
Yard other expenses.....	493,021	487,469	Grain elevators.....	337,885
Total.....	59,654,514	61,218,907	Other operations.....	571,225
			Operating joint miscellaneous facilities.....	101,000
Train Operations			Total Miscellaneous Operations.....	\$ 7,066,328
Train engine-men.....	27,864,214	29,304,392		
Train locomotive fuel and power.....	40,507,705	48,028,725	GENERAL	
Train locomotive water.....	1,108,722	1,348,065	General officers.....	\$ 1,105,944
Train locomotive other supplies.....	1,990,603	1,753,618	Clerks and attendants.....	13,640,198
Train enginehouse expenses.....	12,196,297	12,430,257	Office expenses.....	1,376,751
Trainmen.....	33,012,319	34,799,642	Law expenses.....	776,029
Train other expenses.....	23,508,462	22,688,088	Pensions.....	38,000,000
Operating sleeping and parlor cars.....	5,996,557	5,468,426	Stationery.....	872,196
Total.....	146,184,879	155,821,213	Valuation expenses—U.S. Lines.....	14,396
			Other expenses.....	989,045
Miscellaneous			General joint facilities— <i>Net Debit</i>	121,168
Signal operation.....	\$ 940,494	\$ 921,731	Total General.....	\$ 54,895,727
Crossing protection.....	1,904,051	1,539,660		
Drawbridge operation.....	398,105	356,349		
Communication system operation.....	14,226,270	13,378,141		
Operating vessels.....	11,087,249	10,024,922		
Express department operation.....	28,825,673	27,272,879		

PROPERTY INVESTMENT STATEMENT

Capital Expenditures in 1957

Property Investment at December 31, 1956.....			\$3,093,411,8
Roadway improvements.....	\$ 55,204,784		
Large terminals.....	6,170,977		
Communications facilities.....	12,354,808		
Roadway buildings.....	8,218,874		
Yard tracks and sidings.....	4,387,198		
Roadway and shop machinery.....	3,201,230		
Signals.....	1,563,742		
Highway crossing protection.....	392,617		
Line diversions.....	359,399		
Other facilities.....	2,197,302		
	<hr/>		
Branch Lines.....	94,049,931		
Hotels.....	8,695,190		
Equipment.....	9,890,863		
	139,643,428	\$252,279,412	
	<hr/>		
Deduction in respect of property retirements in 1957.....		47,624,317	
		<hr/>	
		204,655,095	
Government of Canada expenditure on Canadian Government Railways.....		429,461	
Buffalo and Lake Huron Railway Company (Note 2).....		3,148,856	208,233,4
		<hr/>	
Property Investment at December 31, 1957.....			\$3,301,645,2

RECORDED DEPRECIATION STATEMENT

Recorded Depreciation at December 31, 1956.....			\$461,123,0
Add—Provision for depreciation for the year			
Road Maintenance			
Road property depreciation.....		\$ 35,164,598	
Equipment Maintenance			
Rolling stock and vessel depreciation.....		33,689,891	
Supplementary depreciation—steam locomotives...		7,500,000	
Other equipment and machinery depreciation.....		1,482,909	
Other Physical Properties.....		822,832	78,660,2
		<hr/>	
Deduct—Charges in respect of property retirements.....			539,783,2
			28,531,9
Recorded Depreciation at December 31, 1957.....			<hr/>
			\$511,251,2

Government of Canada Loans and Debentures

Capital Revision Act, 1952 Jan. 1, 1972	Canadian	100,000,000	100,000,000
Canadian Government Railways Advances for Working Capital, 1923.	Canadian	16,771,981	16,771,981
Financing and Guarantee Acts 1954-1957 Temporary Loans.	Canadian	93,602,991	197,035,440
Refunding Acts, 1951 and 1955 Loans for Debt Redemption.	Canadian	143,289,856	73,267,583
Total Government of Canada Loans and Debentures.		353,664,828	270,303,023
Total Long Term Debt.		\$1,173,234,340	\$ 199,059,010

Note:—(a) Callable at par on or after Jan. 15, 1954
 (b) Callable at par on or after Feb. 1, 1961
 (c) Callable at par on or after Jan. 3, 1961
 (d) Callable at par on or after Jan. 2, 1964

(e) Callable at par on or after Sept. 15, 1964
 (f) Callable at par on or after Jan. 16, 1966
 (g) Callable at par on or after Feb. 1, 1972
 (h) Callable on or before June 14, 1958 at 102;
 thereafter at varying redemption premiums.

SHAREHOLDERS' EQUITY

Government of Canada No par value capital stock of Canadian National Railway Company.	\$	396,518,135	\$	396,518,135
4% Preferred stock of Canadian National Railway Company.		838,603,203	\$	22,750,879
Capital investment in Canadian Government Railways.		381,149,628		429,461
Total Government of Canada.		1,616,270,966		23,180,340
Capital Stock of Subsidiary Companies Owned by Public.		4,508,670		2,800
Total Shareholders' Equity.		\$1,620,779,636	\$	23,177,540
Total Long Term Debt and Shareholders' Equity.		\$2,794,013,976	\$	222,236,550

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCK OWNED BY GOVERNMENT OF CANADA

Company
number

1	{Canadian National Railway Company (Common).....	\$ 396,518,135
	\Canadian National Railway Company (Preferred).....	861,354,082
		<u>\$1,257,872,217</u>

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	Name of Issuing Company	Controlled by company number	Capital stock issued	Owned by public
1	Canadian National Railway Company.....	see above		
2	Atlantic and St. Lawrence Railroad Company....	1	\$ 6,302,340	\$ 3,840
3	Buffalo and Lake Huron Railway Company.....	1	1,406,298	
4	Canadian National Express Company.....	1	1,000,000	
5	Canadian National Hotels, Limited.....	1	28,970,150	
6	Canadian National Railways (France).....	1	1,886,114	
7	The Canadian National Railways Securities Trust	1	5 million shares	
8	Canadian National Realties, Limited.....	1	40,000	
9	Canadian National Rolling Stock Limited.....	1	50,000	
10	Canadian National Steamship Company, Limited	1	15,000	
11	Canadian National Telegraph Company.....	1	525,900	
12	Canadian National Transfer Company.....	1	500,000	
13	Canadian National Transportation, Limited.....	1	500	
14	The Canadian Northern Quebec Railway Com- pany.....	1	9,550,000	3,849,200
15	The Central Counties Railway Company.....	1	500,000	12,000
16	The Champlain and St. Lawrence Railroad Com- pany.....	1	50,000	
17	The Great North Western Telegraph Company of Canada.....	1	373,625	6,825
18	The Lake Superior Terminals Company Limited.	1	500,000	
19	The Minnesota and Manitoba Railroad Company.	1	400,000	
20	The Minnesota and Ontario Bridge Company.....	1	100,000	
21	Montreal and Southern Counties Railway Com- pany.....	1	500,000	140,600
22	Montreal Fruit & Produce Terminal Company, Limited.....	1	500	
23	The Montreal Stock Yards Company.....	1	350,000	
24	The Montreal Warehousing Company.....	1	236,000	3,820
25	Mount Royal Tunnel and Terminal Company, Limited.....	1	5,000,000	
26	National Terminals of Canada, Limited.....	1	2,500	
27	The Niagara, St. Catharines and Toronto Railway Company.....	1	925,000	
28	The Oshawa Railway Company.....	1	40,000	
29	Prince George, Limited.....	1	10,000	
30	Prince Rupert, Limited.....	1	10,000	
31	The Quebec and Lake St. John Railway Company	1	4,508,300	489,160
32	St. Clair Tunnel Company.....	1	700,000	
33	The Thousand Islands Railway Company.....	1	60,000	
34	The United States and Canada Rail Road Com- pany.....	1	219,400	425
35	Vermont and Province Line Railroad Company..	1	200,000	
36	Central Vermont Railway, Inc.....	1	10,000,000	
37	The Centmont Corporation.....	36	176,400	
38	Central Vermont Transportation Company.....	36	200,000	

39	Duluth, Winnipeg and Pacific Railway Company...	1	3,100,000
40	Duluth, Rainy Lake & Winnipeg Railway Com- pany.....	39	2,000,000
41	Duluth, Winnipeg and Pacific Railroad Company.	39	100,000
42	Grand Trunk Western Railroad Company (Com- mon).....	1	20,000,000
42	Grand Trunk Western Railroad Company (Pre- ferred).....	1	25,000,000
43	Consolidated Land Corporation.....	42	64,000
44	Grand Trunk-Milwaukee Car Ferry Company....	42	200,000
45	Industrial Land Company.....	42	1,000

\$4,505,870

In addition to the shares of the Canadian National Railway Company the Government of Canada has also invested \$381,579,089 in Canadian Government Railways. The Canadian Government Railways property is entrusted to the Canadian National Railway Company as part of the System.

INVESTMENTS IN AFFILIATED COMPANIES NOT CONSOLIDATED

Company	Percentage of Investment Held	Investment at Dec. 31, 1956	Transactions Year 1957 Increase or Decrease	Investment at Dec. 31, 1957
The Belt Railway Company of Chicago				
Capital Stock.....	7.69	\$ 240,000		\$ 240,000
Advances.....		48,971	\$ 2,479	51,450
Chicago & Western Indiana Railroad Company				
Capital Stock.....	20	1,000,000		1,000,000
Advances.....		4,945,023	327,521	5,272,544
The Detroit & Toledo Shore Line Railroad Company				
Capital Stock.....	50	1,500,000		1,500,000
Detroit Terminal Railroad Company				
Capital Stock.....	50	1,000,000		1,000,000
Northern Alberta Railways Company				
Capital Stock.....	50	6,475,000	343,000	6,818,000
Bonds.....	50	12,867,500	682,000	13,549,500
Advances.....			1,150,000	1,150,000
The Public Markets, Limited				
Capital Stock.....	50	575,000		575,000
Railway Express Agency, Inc.				
Capital Stock.....	0.6	600		600
Advances.....		173,493		173,493
The Shawinigan Falls Terminal Railway Company				
Capital Stock.....	50	62,500		62,500
The Toledo Terminal Railroad Company				
Capital Stock.....		387,200	387,200	
The Toronto Terminals Railway Company				
Capital Stock.....	50	250,000		250,000
Bonds.....	50	12,455,000	385,000	12,120,000
Trans-Canada Air Lines				
Capital Stock.....	100	5,000,000		5,000,000
Debenture.....	100	20,000,000		20,000,000
Advances.....		20,000,000	12,000,000	32,000,000
Vancouver Hotel Company Limited				
Capital Stock.....	50	75,000		75,000
Total.....		<u>\$87,055,287</u>	<u>\$13,782,800</u>	<u>\$100,838,087</u>

SOURCE AND APPLICATION OF FUNDS FOR THE YEAR 1957

Source of Funds			
Amount recoverable from Government of Canada in respect of deficit for the year (including \$13,000,000 received on account prior to December 31, 1957).....			\$ 29,572,541
Increase in Recorded Depreciation			
Provision for the year.....		\$ 78,660,230	
Less—Reduction in respect of retirements.....		28,531,966	50,128,264
Long Term Debt			
Increase in Government of Canada loans.....		270,303,023	
Debt of Buffalo and Lake Huron Railway Company.....		2,023,765	
		272,326,788	
Less—Decrease in bonds, debentures and equipment obligations.....		73,267,778	199,059,010
Shareholder's Equity—Government of Canada			
Issue of 4% Preferred stock of Canadian National Railways.....		22,750,879	
Additional capital invested in Canadian Government Railways.....		429,461	23,180,340
			<u>\$301,940,155</u>
Application of Funds			
Deficit for the year.....			\$ 29,572,541
Property Investment			
Additions.....		\$252,279,412	
Less—Retirements.....		47,624,317	
		204,655,095	
Property of Buffalo and Lake Huron Railway Company.....		3,148,856	
Government of Canada expenditure on Canadian Government Railways.....		429,461	208,233,412
Advances to Trans-Canada Air Lines.....			12,000,000
Government of Canada current account.....			42,649,492
Increase in working capital.....			3,627,283
Other.....			5,857,427
			<u>\$301,940,155</u>

EQUIPMENT PLACED IN SERVICE DURING 1957

Diesel-Electric Locomotives

1	380 HP road-switching
14	1000 HP road-switching
31	1200 HP road-switching
6	1600 HP road-switching
138	1750 HP road-switching
58	1800 HP road-switching
36	1750 HP road-passenger
10	900 HP switching
33	1000 HP switching
3	1200 HP switching

330

Passenger Equipment

14	unit cars—diesel railiner
5	dinette cars
20	baggage cars
50	express refrigerator cars

89

Freight Equipment

1,400	50-ton automobile transporter cars
150	30-ton box cars
3,015	50-ton box cars
94	70-ton covered hopper cars
250	70-ton triple hopper cars
587	70-ton longitudinal hopper cars
150	30-ton flat cars
100	70-ton flat cars
200	50-ton refrigerator cars
280	75-ton ore cars
200	70-ton gondola cars
13	cabooses

6,439

Work Equipment

7	diesel locomotive cranes—30-ton
1	diesel locomotive crane and pile driver—30-ton
1	diesel wrecking crane—250-ton
1	Burro crane—12-ton
3	Jordan spreaders
4	Jordan spreader-ditchers
1	scale test car
1	Russell snow plow
130	30-cu. yd. 50-ton air dump cars
1	work unit built from salvage in railway shops

150

INVENTORY OF RAILWAY EQUIPMENT

	On Hand Jan. 1, 1957	Placed in Service	Retired	Converted		On Hand Dec. 31, 1957	Orders Out- standing Dec. 31, 1957
				Added	Retired		
Locomotives							
Steam—Road.....	1,380		188			1,192	
Steam—Switching.....	325		73			252	
Electric.....	33					33	
Diesel—Electric—							
Road—Freight.....	173					173	
Road—Passenger.....	52	36				88	16
Road—Switching.....	496	248	2			742	106
Switching.....	384	46				430	19
Total.....	2,843	330	263			2,910	142
Freight Equipment							
Box cars.....	79,100	4,565	1,401		404	81,860	
Flat cars.....	6,302	250	104		41	6,407	406
Stock cars.....	2,796		31			2,765	15
Hopper cars.....	6,329	344	153		3	6,517	1,150
Gondola cars.....	11,899	200	52			12,047	200
Ore cars.....	1,369	280				1,649	200
Ballast cars.....	2,177	587	7		90	2,667	101
Tank cars.....	25					25	
Refrigerator cars.....	5,047	200	27		9	5,211	285
Caboose cars.....	1,802	13	46	84		1,853	12
Other cars in freight service..	1					1	20
Total.....	116,847	6,439	1,821	84	547	121,002	2,389
Passenger Equipment							
Coach cars.....	1,032		45	2	10	979	2
Combination cars.....	244		8	2		238	
Dining cars.....	103	5	3		1	104	1
Colonist cars.....	72		3		2	68	
Parlor cars.....	77				1	76	
Cafe cars.....	19		1			18	
Sleeping cars.....	456				4	452	
Tourist cars.....	35				3	32	
Baggage and express cars.....	1,348	70	14	11		1,415	32
Postal cars.....	57				1	56	
Unit cars.....	41	14	2			53	5
Other cars in passenger service.....	80		2	3		81	49
Total.....	3,565	89	78	18	22	3,572	89
Work Equipment							
Units in work service.....	9,367	150	308	467		9,676	90
Floating Equipment							
Car ferries.....	8					8	
Barges.....	6					6	
Steamers.....	15					15	
Tugs.....	5					5	
Work.....	2					2	
Total.....	36					36	

STATISTICS OF RAIL-LINE OPERATIONS

	1957	1956
Train-Miles		
Freight service.....	42,073,087	47,944,638
Passenger service.....	23,820,127	24,268,051
Work service.....	2,240,263	2,377,562
Total train-miles.....	68,133,477	74,590,251
Locomotive-Miles		
Freight service.....	43,555,662	50,322,972
Passenger service.....	22,692,795	23,632,672
Train switching—Freight.....	3,288,334	3,722,002
—Passenger.....	113,725	120,059
Yard switching—Freight.....	17,612,051	18,979,856
—Passenger.....	1,808,085	1,805,446
Work service.....	2,320,934	2,463,917
Total locomotive-miles.....	91,391,586	101,046,924
Car-Miles		
Freight Service:		
Loaded freight cars.....	1,267,510,516	1,417,709,588
Empty freight cars.....	645,368,069	711,181,806
Passenger coach and combination cars.....	4,849,219	5,206,310
Other cars.....	11,918,313	10,436,049
Caboose cars.....	42,538,945	48,270,164
	1,972,185,062	2,192,803,917
Passenger Service:		
Loaded freight cars.....	1,475,497	879,553
Empty freight cars.....	60,746	54,245
Passenger coach and combination cars.....	53,798,538	54,977,530
Sleeping, parlor and observation cars.....	59,010,840	57,654,261
Dining cars.....	9,469,868	9,090,836
Motor unit cars.....	2,293,943	1,916,297
Other cars (baggage and express cars, etc.).....	93,789,200	92,501,172
	219,898,632	217,073,894
Work service.....	4,977,773	4,810,716
Total car-miles.....	2,197,061,467	2,414,688,527
Average Mileage of Road Operated.....	24,282.06	24,270.56
Freight Traffic		
Tons carried—Revenue freight.....	88,880,881	99,033,731
Ton-miles—Revenue freight.....	36,673,910,825	41,935,388,811
Revenue per ton.....	\$6.60742	\$6.18746
Revenue per ton-mile.....	\$0.01601	\$0.01461
Average haul.....	412.62	423.45
Ton-miles—Revenue freight per mile of road.....	1,504,385	1,721,343
Ton-miles—All freight per mile of road.....	1,587,684	1,823,510
Gross ton-miles of cars, contents and cabooses.....	85,556,996,797	95,956,149,254
Net ton-miles of freight (revenue and non-revenue).....	38,552,235,048	44,257,605,305
Train-hours in freight road service.....	2,284,285	2,731,939
Gross ton-miles per freight train hour.....	37,017	34,742
Average speed of freight trains (miles per hour).....	18.4	17.5
Average gross load—Freight trains (tons).....	2,010	1,980
Steam locomotive miles per serviceable day (excluding stored).....	92	122
Diesel unit miles per serviceable day (excluding stored).....	223	251
Passenger Traffic		
Passengers carried.....	13,920,236	15,989,368
Passenger-miles.....	1,498,655,566	1,500,929,719
Revenue per passenger.....	\$3.36334	\$2.86712
Average passenger journey (miles).....	107.66	93.87
Revenue per passenger mile.....	\$0.03124	\$0.03054
Passenger-miles per mile of road.....	61,719	61,842
Percent on time arrival principal passenger trains.....	72.9	64.3
Steam locomotive miles per serviceable day (excluding stored).....	170	200
Diesel unit miles per serviceable day (excluding stored).....	485	538
Net Railway Operating Income		
Gross revenue per mile of road.....	\$31,017	\$31,923
Gross railway operating charges per mile of road.....	\$31,101	\$29,995
Net railway operating income per mile of road.....	\$84	\$1,928

REVENUE TONNAGE BY COMMODITIES

	Year 1957 Tons	Year 1956 Tons	Increase or Tons	Decrease Percent
Agricultural Products				
Grain.....	9,437,049	11,465,038	2,027,989	17.69
Grain products.....	3,315,126	3,789,331	474,205	12.52
Fruits, fresh or fresh frozen.....	422,058	407,211	14,847	3.65
Vegetables, fresh or green.....	641,127	711,765	70,638	9.93
Other agricultural products.....	1,266,173	1,280,088	13,915	1.09
Total Agricultural Products.....	15,081,333	17,653,433	2,571,900	14.57
Animals and Animal Products				
Livestock.....	330,848	335,461	4,613	1.38
Butter, cheese and eggs.....	59,377	62,972	3,595	5.71
Fresh meats, fish and packing house products (edible).....	328,364	334,997	6,633	1.98
Other animal products (non-edible).....	199,923	225,781	25,858	11.45
Total Animals and Animal Products.....	918,512	959,211	40,699	4.24
Mine Products				
Coal.....	10,270,018	13,103,219	2,833,201	21.62
Coke.....	957,506	924,753	32,753	3.54
Iron ore.....	3,211,103	4,675,824	1,464,721	31.33
Non-ferrous ores and concentrates.....	4,178,869	4,102,703	76,166	1.86
Crude petroleum.....	502,652	681,027	178,375	26.19
Building sand, gravel and crushed stone.....	8,603,665	6,407,308	2,223,357	34.70
Other mine products (non-metallic).....	5,644,159	8,220,573	2,576,414	31.34
Total Mine Products.....	33,394,972	38,115,407	4,720,435	12.39
Forest Products				
Logs, posts, poles and piling (excluding cordwood and fuelwood).....	957,425	979,099	21,674	2.21
Lumber, timber and plywood.....	4,142,645	5,066,036	923,391	18.23
Pulpwood.....	4,962,465	5,282,416	319,951	6.06
Other forest products.....	276,080	305,755	29,675	9.71
Total Forest Products.....	10,338,615	11,633,306	1,294,691	11.13
Manufactures and Miscellaneous				
Iron and steel: pig, bloom and ingots.....	620,681	745,231	124,550	16.71
Iron and steel products (manufactured).....	1,948,131	1,839,438	108,693	5.91
Non-ferrous metals: matte, pig and ingot.....	1,026,164	1,123,025	96,861	8.63
Machinery: boilers and castings.....	424,554	464,491	39,937	8.60
Gasoline.....	2,395,292	2,455,583	60,291	2.46
Fuel oil.....	1,900,678	1,931,991	31,313	1.62
Other petroleum products.....	769,789	824,790	55,001	6.67
Cement.....	1,388,847	1,542,790	153,943	9.98
Plaster, lime, brick, building stone, tile and non-metallic pipe.....	697,615	971,591	273,976	28.20
Woodpulp.....	1,518,178	1,669,927	151,749	9.09
Newsprint paper.....	2,423,945	2,470,492	46,547	1.89
Paperboard, pulpboard and wallboard (paper).....	827,082	935,416	108,334	11.53
Paper other than newsprint.....	652,395	640,783	11,612	1.81
Beverages.....	371,123	399,405	28,282	7.08
Canned goods.....	775,807	772,398	3,409	.44
Sugar.....	234,218	251,629	17,411	6.92
Agricultural implements and farm tractors.....	128,641	148,345	19,704	13.28
Automobiles, auto trucks and parts.....	2,087,884	2,121,410	33,526	1.58
Fertilizers.....	973,863	912,412	61,451	6.74
Miscellaneous carload commodities not specified above.....	6,758,912	7,173,066	414,154	5.77
Total Manufactures and Miscellaneous.....	27,923,799	29,394,213	1,470,414	5.00
All less than carload freight.....	1,223,450	1,278,161	54,711	4.28
Grand Total.....	88,880,881	99,033,731	10,152,950	10.25

OPERATED MILEAGE AT DECEMBER 31, 1957

	Owned	Leased	Trackage Rights	Total
First main track in Canada.....	22,485	67	194	22,746
First main track in United States.....	1,446	182	123	1,751
Total first main track.....	23,931	249	317	24,497
Other main track.....	1,187	—	83	1,270
Spurs, sidings and yard tracks.....	6,816	79	1,589	8,484
Total all tracks.....	31,934	328	1,989	34,251

A 25-YEAR SYNOPTICAL HISTORY OF THE CANADIAN NATIONAL RAILWAYS

Year	Operating Revenues	Operating Expenses	Net Operating Revenue	Taxes and Rents and Other Income	Available for Fixed Charges and Dividends	Fixed Charges	Surplus or Deficit	Freight Revenue per Ton Miles	Revenue per Passenger Miles	Average Number of Employees	Average Hourly Earnings per Employee
	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Thousands)	(Millions)	(Million)		\$
1933	\$148,520	\$142,813	\$ 5,707	\$ 5,755	\$ 48	\$58,907	\$58,955	9.72	2.261	74,107	.583
1934	164,902	151,936	12,966	3,152	9,814	58,222	48,408	9.74	2.259	78,532	.563
1935	173,184	158,926	14,258	4,787	9,471	56,893	47,422	9.90	2.162	79,044	.500
1936	186,611	171,478	15,133	6,264	8,869	52,172	43,303	9.82	2.048	83,506	.503
1937	198,397	180,789	17,608	6,684	10,924	53,270	42,946	1.014	1.987	84,363	.613
1938	182,242	176,175	6,067	6,989	6,262	53,452	54,914	1.044	2.030	79,940	.653
1939	203,820	182,966	20,854	7,461	13,393	53,488	40,065	.938	2.035	81,672	.652
1940	247,527	202,520	45,007	8,667	36,340	53,305	16,965	.904	1.929	86,366	.650
1941	304,377	237,769	66,608	9,430	57,178	53,162	4,016	.881	1.810	100,651	.682
1942	375,655	288,999	86,656	9,983	76,733	51,070	25,063	.909	1.784	100,651	.730
1943	440,616	324,476	116,140	28,311	87,829	52,190	35,639	.864	1.848	106,893	.763
1944	441,147	382,547	78,600	5,099	73,501	50,474	23,027	.893	1.697	108,278	.827
1945	433,773	355,294	78,479	4,713	73,766	49,010	24,756	.915	1.888	110,561	.832
1946	400,586	357,237	43,349	5,698	37,723	46,085	8,962	.975	2.289	109,809	.898
1947	438,198	397,123	41,075	11,034	30,041	45,926	15,885	1.040	2.332	112,801	.927
1948	491,270	464,740	26,530	13,721	12,809	46,342	33,533	1.195	2.368	115,395	1.064
1949	500,723	478,501	22,222	15,653	6,569	48,632	42,063	1.276	1.621	116,037	1.104
1950	553,831	493,997	59,834	15,673	44,161	47,422	3,741	1.364	2.834	116,347	1.133
1951	624,834	580,150	44,684	11,589	33,145	48,177	15,032	1.369	2.947	124,608	1.294
1952	675,219	634,853	40,366	14,809	25,557	28,415	142	1.387	2.964	131,297	1.425
1953	696,622	659,049	37,573	7,963	29,620	32,376	244	1.539	2.984	130,109	1.525
1954	640,637	626,465	14,172	10,403	3,769	32,527	28,763	1.509	2.973	122,237	1.550
1955	683,089	629,013	54,076	10,354	43,722	33,004	10,718	1.511	3.001	119,430	1.645
1956	774,801	703,304	71,497	13,637	57,860	31,783	26,077	1.461	3.054	126,639	1.645
1957	753,166	734,556	18,610	11,211	7,399	36,972	29,573	1.601	3.124	124,620	1.716

Mr. Chairman, that ends the report. But there is one comment I would like to make about an item in it.

The CHAIRMAN: Very well.

Mr. GORDON: I would like to say, with your permission, that in respect to the supplementary charge of \$7½ million for steam locomotive depreciation which is referred to in paragraph 26 on page 9 of this report, that this accounting entry was made with the approval of our auditors and supported by our legal advisers.

However, following consideration by departmental advisers, the government, through the Minister of Finance, reached the conclusion that the governing statutes do not provide clear authority for the inclusion of this item as an expenditure which would enlarge the deficit to be reimbursed to the railway.

Since our books for 1957 were closed before this conclusion was reached, the necessary adjustment will have to be made in the 1958 accounts.

However, we have been able to revise our 1958 capital budget and estimated income account. This amended budget will be tabled by the Minister of Transport in the House of Commons at 2.30 this afternoon. And I understand that copies of this amended budget will be provided to the members of this committee.

I suggest, Mr. Chairman, therefore, that the committee at this point merely take notice of this item so far as the annual report is concerned, and that any further questions if desired may be conveniently dealt with when the committee comes to discuss the capital budget proposals and our auditors' report to parliament.

The CHAIRMAN: Gentlemen, you have heard the report. It is rather an exhaustive and a very explanatory one. I think it is a splendid report. Are there any questions or comments?

Mr. BROOME: The deficit includes the \$7½ million depreciation?

Mr. GORDON: In this particular report, that is right. We shall have to make reversing entries for the reasons I mentioned. We can deal with that in detail when we come to the budget itself.

Mr. SMITH (*Calgary South*): Perhaps we might have some questions. I wondered how you would like to take them. Would you like them just from the report itself?

The CHAIRMAN: I think it would be more orderly if we proceeded in the same order as Mr. Gordon has read his report.

It was a long report and I thought that we might take part of it as read. However, Mr. Gordon has read it carefully, and I think that should expedite our general procedure.

I suggest that we start at the first of the report and then continue from paragraph one on page 5. You have all read the report and you have listened to it this morning, and you know wherein you have some comments to make. Shall we take the first paragraph on page 5? Are there any questions or comments on that?

Mr. FISHER: I would like to ask a general question first. This has to do with the number of changes which have taken place in our government service. Does the president expect to be with the railway throughout the next year?

Mr. GORDON: What is that again, please?

Mr. FISHER: Does the president expect to be with the railway throughout the next year?

Mr. GORDON: If you are speaking to me personally, I have no plans to the contrary at the moment.

Mr. CHEVRIER: Mr. Chairman, in dealing with the first page of the report may I ask the president if he can simply give us the reasons for the decrease

in freight. Throughout the report it has been shown that the volume of freight has decreased. Is this a position that pertains to the whole of North America?

Mr. GORDON: Yes, indeed. There is breakdown of the individual traffic if you will turn to page 38. There you will see a comparison and breakdown on the way it actually took place. This reflects the recession or whatever other term we might use to describe what has been taking place in the economic activity of the North American continent.

Both railways, the Canadian Pacific and the Canadian National in their earnings will reflect to some degree the economic health of the Country in terms of traffic.

Mr. CHEVRIER: Does it apply to the Canadian Pacific Railway as well?

Mr. GORDON: Yes, but I think the impact on the Canadian National is heavier.

Mr. SMITH (*Calgary South*): That is a question I wanted to ask. I am sure Mr. Gordon has looked through the Canadian Pacific Railway report. I wonder if he might give us an indication, without elaborating greatly on all the details, on how we find ourselves with the Canadian National Railways with a fairly substantial net loss whereas the Canadian Pacific Railways are almost in the opposite position to a certain extent showing a net profit. Is the answer to this largely that one is almost twice the size of the other?

Mr. GORDON: That will always occur in making a comparison between the Canadian National and the Canadian Pacific railways, and that is because the two organizations are not comparable. You have to make major allowances for these differences and also the differences in the type of business. In the first place while both the Canadian National and the Canadian Pacific indicate in their systems' annual reports many collateral activities such as hotels, express, communications and other allied activities of that character, the Canadian National Railway does not have the amount of other income shown by the Canadian Pacific Railway and this other income forms a substantial proportion of the total income of that company.

Mr. Crump, in his recent report to his shareholders made this statement:

—the proportion of total income provided by your railway enterprise dropped from 80 per cent in 1928 to around 60 per cent in 1957.

So, in that respect it is not a fair railway comparison. It is their other income which assists their earning record.

In the second place while uniform accounting is required for rate-making purposes by the Board of Transport Commissioners, for their own purposes both companies make certain reclassifications of their accounts. The Canadian Pacific Railway uses what is known as the user method of depreciation, whereas the Canadian National Railway uses the straight line method of depreciation. And whereas the Canadian National Railway reflects the full proportion of depreciation on capital assets the Canadian Pacific Railway depreciation charges will fluctuate year after year in response to the traffic handled.

There are also other features. There are some items that the Canadian Pacific Railway show in their net total that we do not. Knowing that the two railways are not in all ways comparable I have tried to make a sensible comparison by extracting from the Canadian Pacific Railway's results the railroading segment of their operations. And that is what we try to watch all through the piece.

If you look at what you might call the railroading part of their activity and compare that with the railroading part of our activity you will see that

we show a higher transportation ratio by about 5 to 7 points, and working out it means an additional cost to the Canadian National Railways of about \$45 million in 1957.

Putting it more simply, if we had the same transportation ratio as the C.P.R. we would have been \$45 million better off in 1957.

There are no definitive reasons that can be allocated to it, it is a plain historical fact, growing out of the difference between planned building on the one hand amalgamating of existing railroads on the other. Transportation expense is the area in which you would be perfectly entitled to question us about our operations. We are making encouraging improvements in this field and will continue these efforts until we get our transportation costs down to the point we wish.

Our maintenance costs are also higher than the C.P.R. For several years now, we have been catching up on deferred maintenance. This deferred maintenance was a result of several things—lack of funds during the depression period and the inability to get either men or material during the war and early post-war years, when heavy traffic was imposing a severe drain on the life of our facilities. So, recently we have been doing not only current maintenance but catching up on this back-log.

I might say there are very many other things that add to the growing financial cost of our enterprise. Our cost of borrowed capital is growing steadily greater because we do not have the advantage of using other income. A comparison I have here, as of December 31, shows that equity capital in the Canadian National is 58.4 per cent, whereas in the Canadian Pacific it is 69.9 per cent. This means that we pay interest charges on an amount of about 40 per cent of our total capital, whereas the Canadian Pacific only pay on 30.1 per cent.

Mr. CHEVRIER: I wonder if we cannot get back to the original question I asked about decrease in volume of traffic and what caused it in Canada?

Mr. GORDON: Well, Mr. Chevrier, that is asking me what is the cause of the recession.

Mr. CHEVRIER: Well, I did not want the question to be expressed in that way. I wanted to put it to you, what are the reasons for the decrease in Canada?

Mr. GORDON: There are two major reasons. One is that we have a direct reflection of the fact that economic activity has gone into a decline over the last year or eighteen months. Railway carloadings are the first indicator to reflect fluctuations in economic activity so that railways figures become very realistic. That is probably the best business barometer to show whether our boom is booming or whether our depression is depressing. That is the most sensitive indicator we have. So we have a clear indication that we are in a recession.

The second is that competition is becoming more and more effective.

Mr. CHEVRIER: With other forms of transportation?

Mr. GORDON: It is the loss of high-rated traffic which we formerly carried. We are doing our best to stop it.

Mr. CHEVRIER: What is the immediate outlook for carloadings in the immediate future?

Mr. GORDON: I have made notes on that in the budget, which I will come to a little later and will give you actual figures. I will be glad to move to it now if you wish. I have some figures when I come to my budget later and if you will refer to your question then I will be able to give a better answer to your question.

Mr. SMITH (*Simcoe North*): Is the loss to other means of transportation heavier in certain commodities, in certain materials than in others?

Mr. GORDON: Yes, it is.

Mr. SMITH (*Simcoe North*): For example, local carriage of mails.

Mr. GORDON: We are most concerned in connection with the competition of trucks for high-rated traffic. The trucks are able to choose the more desirable and remunerative loads and we are left with the heavy bulk commodities which generally are low-rated.

The other place where we are extremely vulnerable is in our passenger traffic. We do not have the efficiency of an airline for long distance traffic and our passenger traffic in that respect is declining.

Mr. SMITH (*Simcoe North*): I suppose pipe lines offer some competition?

Mr. GORDON: Yes, although, the pipe line does not take traffic away from us in the first instance.

Mr. CHEVRIER: Speaking of competition with other railroads, do you feel that the Canadian Pacific Railway, with their stainless steel equipment, are a danger to the Canadian National in taking traffic away?

Mr. GORDON: That is one of those questions for consideration. When we looked at the question of spending some \$50 million in passenger equipment we wanted to spend it on equipment that was as modern as possible and get the maximum amount of equipment. That dome car is a stunt car. It is not a revenue car in itself, and our traffic people did not think too highly of it.

Mr. SMITH (*Simcoe North*): I suppose the formula of competition runs along the lines that were formerly profitable to the railways—where there was a heavy volume of passenger traffic you get heavy competition with buses and airlines?

Mr. GORDON: That is true in part, although it might be that the airlines concentrate heavier on long distance traffic while we have some hopes that we can develop a better approach to our passenger problem in the form of better inter-city travel. That is what we are concentrating on at the moment.

Mr. BROOME: In regard to Crowsnest Pass rates on lumber shipments from the coast to central and eastern markets, these shipments have dropped to perhaps half what they were in 1948, for instance. Actually other rates have gone up 100 per cent. Are you not finding that with the rate jumps you are losing a lot of traffic and that you place the increases against selected products and that these products are going to pass over to other forms of transportation because you have just about reached the point of all that the traffic will bear; I am speaking of the lumber products particularly?

Mr. GORDON: That is a question of whether our cost of service has gone up relatively to the cost of other competitive services. In many cases there has been an increase in the order of 100%, while the traffic offering has not increased to the same extent, so that many other commodities will have to take the full effect of the authorized increases. If you put the same increase on all commodities throughout it would stifle the trade.

I would not agree that that is the general situation. As you know, we apply to the Board of Transport Commissioners for a general freight rate increase. If that freight rate increase is granted and is not upset by any other governing authority then it is a progressive increase, that is to say, it goes in regular progression by increases of, we will say for example, 10 per cent. The Board can only grant us permission to increase our freight rates. They do not tell us how to increase them or where; and it is our job to apply that increase in

such a way that we do not lose competitive traffic, and we do not intend to put that increase across the Board on all commodities. We look at what the competitive situation is.

The CHAIRMAN: In a particular district?

Mr. GORDON: In light of the competitive situation. But getting back to the question of lumber I had an idea that there has been a slight increase in lumber shipments through the lakehead.

Mr. BROOME: The only point I want to make is that housing has increased, other things have increased and that the coast lumber is reduced on the market it normally filled.

Mr. GORDON: I might comment that other costs in the production of lumber might increase and I cannot see that the one factor of transportation would be the deciding factor.

Mr. BROOME: Yes, the price of lumber at the mill has been reduced since 1948 on the shipments I referred to, according to the brief of the British Columbia Lumbermen's Association.

Mr. SMITH (*Calgary South*): You leave the Crowsnest Pass alone too.

The CHAIRMAN: Truck and water transportation.

Mr. CHEVRIER: Mr. Chairman, I would like to ask a question that relates to trucking competition. Has the Canadian National Railways been considering the purchase of trucking lines across Canada?

Mr. GORDON: Now, there is a question which makes me sit back and think how much I should say. Let me put it this way, that it is our intention that the Canadian National Railways remain competitive in the transportation business. Now, what that involves depends on the circumstances of the day. We will not hesitate to use any form of transportation media if we consider that that particular form is profitable business. The question of the use of trucks as a collateral arm with the railway industry is a very lively one at the moment.

Mr. CHEVRIER: I do not want to embarrass the president, so might I put it this way: can you tell us how the piggy-back service is operating between Toronto and Montreal? Has the use of this form of competition made it unnecessary to give consideration in that area to the purchase of truck lines?

Mr. GORDON: There are two phases to the piggy-back service. We have, as you know, the railway-owned trailer which we send out for pick-up and operate ourselves between the two cities. We put that in as our answer to the trucking competition in certain areas where there was heavy congestion on the highways.

The second step is that we have now extended this service to trailers of "for hire" common carriers in highway service which we carry on cars similar to those used for our own piggy-back service. In certain places we have trucking services of our own and we may do more, but how far we would go has not been discussed and I would not like to prognosticate at this moment. But it is a very serious matter in our deliberations.

Mr. FISHER: How much are you feeling the competition of Smith Transport recently purchased by the Canadian Pacific?

Mr. GORDON: Nothing in particular. The purchase of the Smith Transport by the Canadian Pacific Railway may serve sharply as a means to making up our minds in our deliberations whether the Canadian National Railways should go into that type of business. We are not sitting back. The matter is a very live one in our considerations. I do not want to say anything here that will confirm or deny that we are in negotiation with any group of trucking interests.

Mr. FISHER: I just want to ask a general question. In going back over the Canadian National Railways record you seem to have had probably two hurdles, first of all, the standing debt and the fixed charges which you got reduced, I think, in 1952. Then your next hurdle was to get over modernization, including dieselization and we had a certain amount of argument up until last year's report that now we would have something very profitable however now we are talking of additional labour costs and material costs related to freight rates. I wonder if you would care to make some remark, because we thought when you had overcome these two hurdles this enterprise would be very profitable for the first time.

The CHAIRMAN: I think if we could just follow more definitely on the paragraph we are following and have the discussion confined there. We are going through page 7 under the heading of freight and if we could proceed with the freight and passenger and possibly your question with relationship to other matters could come in later as we proceed to page 11. I think if you could just keep your questions confined to the order we are proceeding in, on freight at the moment. We have discussed freight and if you are interested in freight issues you can ask questions on them and then go on to passenger.

Mr. FISHER: I notice in paragraph 1 you say that the year 1957 was financially unrewarding. Well, up to 1957 we have discussed some of these hurdles that you were getting over until we would finally reach the stage where it would be rewarding and I thought we had more or less reached that point.

But then you have brought up another crisis.

Mr. GORDON: I would certainly not agree with that. I think I can answer it much better when I come to our operating budget forecast. I will have the figures then and will be able to give a more comprehensive form of answer.

Mr. FISHER: Will it be retroactive to that point? Where would you be if it had not been for the alteration in fixed charges?

Mr. GORDON: The capital revision in 1952, relieved the Canadian National Railways of the burden of paying interest charges on debts that had been on the books of the six bankrupt companies which formed a heavy load. By this revision we were relieved of about \$25 million in annual interest charges.

Mr. SMITH (*Calgary South*): The question of profitable operation will come later?

The CHAIRMAN: Yes.

Mr. PASCOE: In regard to freight and truck competition will the forecast of a greater shipment of grain this year have an impact?

Mr. GORDON: Well, if we get the shipments, of course, the total will increase. At the moment the prospects look definitely good.

The CHAIRMAN: Are there any further questions about freight? So we can work it as practically as we can for all interests, will you ask questions on freight just so we will be on top of our procedure, and I think we can expedite matters in that way? If there are no further questions at this point—

Mr. ROBICHAUD: Mr. Chairman, I might ask if there is any consideration for a revision of freight rates for the transportation of green lumber to be processed? We have this shipment in the maritime where green lumber is being transported, say, from Nova Scotia to certain mills in New Brunswick and the rates on this green lumber are excessive.

Mr. GORDON: In the opinion of the shipper?

Mr. ROBICHAUD: In general opinion because there was a big market in the maritimes and it has practically disappeared.

Mr. GORDON: It was discussed several years ago. Of course this would be a specific matter in regard to a specific commodity which would not appear in the form of a general freight rate increase before the Board of Transport Commissioners. In this particular case this is a specific commodity as I say in a specific area, and these, I might say, are under close examination with us all the time. We weigh the ability of the product to reach its market. As I remember it, this had to do with a processing charge. It was carried at one charge as green lumber and then at a different rate after it was kiln dried, and I know we had discussions on that time and again.

Mr. CHEVRIER: May I ask a question of the minister on freight rates. There is a reference in paragraph 10 dealing with the Maritime Freight Rates Act saying that there has been an increase from 20 per cent to 30 per cent. I would like to ask the minister is there not further consideration being given by the government to a further increase in the maritime freight rates subsidy?

Mr. HEES: This matter is always being considered but there is no imminent action planned.

Mr. CARTER: Might I ask the president if the freight rates between points on the Newfoundland railway are the same as on the mainland, the same based on miles or whatever it is? Will you tell me if you have the same freight rates for the Newfoundland railway as you have for the rest of Canada.

Mr. GORDON: Yes, the same freight rates are applicable across Canada.

The CHAIRMAN: If there are no further questions at this time on freight, shall we pass on?

Mr. FISHER: You had some plans to give better service with a special pulpwood car. Have you gone ahead with that?

Mr. GORDON: We have designed a car and we have set it up with a couple of companies and it is at the moment under test. We are trying to work out a procedure which will encourage us to build a supply of cars. We have approached several pulpwood companies and have offered them a rate in return for their utilization of that car for their particular product.

Unless we can keep such a car operating at maximum utilization with these companies, it would be a losing proposition for us. We are trying to work out an agreement with several companies and, at the moment, we believe that we will be successful.

Mr. FISHER: We have had one American company fall down at the lake-head—Hammermill—and one of their reasons was that the transportation by rail—and they are on the north line of the Canadian National Railways—was just too high. I was wondering if you have studied any way of decreasing those charges or if you have any way of using those cars in this area to get some of this pulpwood business?

Mr. GORDON: Isn't that in the same are in which Abitibi operates?

Mr. FISHER: Yes.

Mr. GORDON: We just made an agreement with Abitibi—on newsprint, I think.

Mr. FISHER: Has that been approved by the Board of Transport Commissioners?

Mr. GORDON: It does not need approval. We file it with the board but under the law now, we can make an agreed charge, file the charge and unless it is challenged it goes into effect almost immediately. It has not been challenged and I do not see why it would be as the price is quite reasonable.

Mr. FISHER: There was an operation up at Kowkash on the north line of the Canadian National Railways shipping pulp to the Americans and I inquired

and got the answer that they could not get a decrease in charges sufficient to enable them to remain in business. That is why I am suggesting to you that a study should be made in this area.

Mr. GORDON: Well, first of all, in any of these particular cases we have to proceed very carefully. That is one of the handicaps under which we are working in the railway business but one of the things which I feel is a good thing. That is, when a rate is put in it must be non-discriminatory.

The second thing is we must look at our own costs. Now, if we cannot supply a service at a freight rate that will yield us some profit or perhaps break even, then we do not put that rate in. I do not know the particular case you have in mind, but some of those elements I am sure must be in it. There is also the fact, of course, that the pulpwood business itself may be suffering under an uneconomic geographical location.

Mr. FISHER: That is one of the general complaints all along, as you go from Sioux Lookout to Nakina that you cannot get the pulpwood out.

Mr. GORDON: But remember that transportation charges are based on costs and we have no magic formula that will enable us to supply a service on any basis other than what our costs are to carry it.

We have train costs, servicing costs, overhaul costs, and many others and in figuring any freight rates we have to apply those costs.

Mr. FISHER: Have there been any indications of establishing an agreed charge with the pulpwood mill at Kenora for the haul that comes down to the Red Lake road?

Mr. GORDON: I will be glad to look that up. Where is the location?

Mr. FISHER: At Kenora. It would be from Quibell.

Mr. GORDON: You are on the wrong railway at the moment.

Mr. FISHER: There was a question of both the Canadian National and Canadian Pacific getting there and putting in a truck from Winnipeg to service the mill at Kenora.

Mr. GORDON: This sounds to be like a company at Kenora, the M. and O.

Mr. FISHER: It is at Kenora where they operate up the Red lake road which cuts north from Quibell which is near Sioux Lookout.

The CHAIRMAN: As the president has mentioned that would have to be in relation to the competition and also a general rate that is applied to all companies and that would include M. and O. and the Abitibi and the K.V.P. and a lot of others.

Mr. FISHER: They say the railways are too insensitive to their demands.

Mr. GORDON: It is hard to think of the railways as being too insensitive to their demands. It is very noticeable in Northern Ontario that we have a great many of our low rates and agreed charges in effect where the hauls are long and the remuneration is negligible. No one is more sensitive to the needs of the consumer than the railway business but it is futile for us to try and reach the consumers of basic products on the subject of railway economics.

I do my best to try to get costs down. I am being frustrated in every direction, in every endeavour to get them down for various reasons. But speaking as businessman to businessman, having arrived at a figure, I say those are my costs and we are willing to discuss a freight rate based on them at any time.

The CHAIRMAN: I have had some experience in shipping pulpwood. As you get back in the English river area behind Kenora, in the area that the Abitibi and other companies are operating, the costs of wood are getting higher all the time and the railroads are losing traffic due to the trucking; they have these large trucks now. In most cases they have to pick up the wood and truck it

sometimes 20 or 25 miles and sometimes put it into water and drive it. Handling it each time adds to the cost of the pulpwood greatly, and so a great many companies—International in Quebec and others—are figuring that where you have to come out of the bush into water and out of the water on to a railroad siding again this adds terrifically to the cost. What a lot of them are doing is to build throughways where they can truck it right through.

I think that the International Paper Company is trucking 25 or 30 miles; and Bathurst is doing the same. I do not think that Abitibi are doing it because they have to spend more money on the development of roads in the English lakes area. It is a question of whether or not it would be better to build roads or have it hauled to the water, out of the water and on to the railroad. So the railroads are finding in that respect tougher competition year by year as the forest is moving back and you have to go further for wood.

I think you can say that in future the competition will be still tougher all the time year by year because of that. Previously when it could be just loaded right on a siding from the bush then there was not competition by the trucks; but where you have to load off trucks and into water, and out of the water into a railway car or an elevator, then they give consideration to the building of roads right through.

MR. GORDON: I would like to say, Mr. Fisher, that if you have some specific case in which you are interested I would be very happy to hear from you and we will give you the details.

MR. FISHER: I would like you to check on that Kowkash section.

MR. CARTER: Do the freight rates for the railroad in Newfoundland apply to freight by water?

MR. GORDON: Yes. The general understanding is that the sea transportation is part of the rail line. That was part of the confederation agreement. The link between Sydney and Port aux Basques is regarded as a rail link; in other words a rail "bridge".

MR. CARTER: It is all carried at the same rate.

MR. GORDON: You are speaking about coastal carryings?

MR. CARTER: Yes; from Port aux Basques to points along the coast.

MR. GORDON: If you are speaking about a shipment from the mainland delivered to an out-port—

MR. CARTER: Yes?

MR. GORDON: —then that is a rail rate. What I cannot answer specifically is if the traffic was put on board at a port for delivery to another coastal port; I am not sure about that. I think it is a rail rate, but I would have to check it. I want to be sure when I answer your questions because I know you will come back and check on me.

MR. CARTER: In Newfoundland we have some industries which are finding transportation costs one of the handicaps. We have, for instance, at Corner Brook, a cement industry and we are told that the freight charges from Corner Brook to St. John's in respect of hauling cement are higher than they are in bringing cement from Europe by water. Do you take that competition into consideration when you fix your rates, or if you adjusted the rates between St. John's and Corner Brook to meet that competition, would you have to apply that all over the system?

MR. GORDON: No. We are permitted to quote a competitive rate in the light of specific competitive conditions. I would say, as a general statement, if there is competition in respect of cement being delivered to St. John's out of European ports as against cement from Corner Brook then we would meet that rate.

Mr. CHEVRIER: May I ask a question in reference to paragraph 9 and the increase of 3.6 per cent. Could the president tell us what that increase meant in the way of revenue to the Canadian National Railway?

Mr. GORDON: About \$8½ million annually.

Mr. CHEVRIER: Can you tell us what it meant to the other railway?

Mr. GORDON: I would say roughly 60 per cent of that figure. It usually runs about 60 per cent of our figure. That is a broad figure.

Mr. CHEVRIER: Approximately \$13 or \$14 million in all?

Mr. GORDON: Yes.

Mr. SMITH (*Calgary South*): In respect of passenger service, do you intend to improve your facilities in rolling stock for passenger service this coming year?

Mr. GORDON: Just in respect of replacements.

Mr. SMITH (*Calgary South*): You are not going into a stainless steel train?

Mr. GORDON: No. At the moment our passenger service is one of our biggest worries. It is our biggest losing service in the whole railway and we will have to take some measures to deal with that situation, so as I see it now the whole trend will be against further capital expenditures rather than the reverse.

Mr. SMITH (*Calgary South*): I am speaking without knowledge of all the facts, but do you not think that one of the advantages and experiences which the C.P.R. has had is in the speeding up of its services across Canada in addition to providing very excellent facilities and that that has taken some of the business away from you and made it more competitive? Have the additional expenditures not proven beneficial to the C.P.R.?

Mr. GORDON: We have done that. We have spent very large amounts and more, relatively, than the C.P.R. The only point which has caught the public's imagination and the only place where we have not been competitive, in respect of what you have been suggesting, is in the dome cars. Being competitive does not require that you do exactly as your competitor is doing. We are not satisfied that a considerable expenditure in respect of the dome car would pay off for the C.N.R.

Mr. BROOME: As a comparison between the C.P.R. and the C.N.R. in respect of passenger revenue have you made an analysis of the passenger operations in the C.P.R. as against yours?

Mr. GORDON: As best we can. We do not have access to their books, but from the standpoint of operation we make certain analyses.

Mr. BROOME: Do you think they are in the same position you are?

Mr. GORDON: Relatively I would think they must be.

Mr. BROOME: I have travelled on both lines and, frankly, I like travelling on the C.P.R. because I like their train, the Canadian, better.

Mr. GORDON: From the standpoint of equipment, or what?

Mr. BROOME: Equipment.

Mr. GORDON: I am surprised to hear that.

Mr. BROOME: I am, of course, a non-revenue passenger.

Mr. GORDON: Apart from the scenic value I would certainly be prepared to argue that the equipment on the C.N.R. is just as good as on the C.P.R. from the standpoint of travelling comfort.

Mr. CARTER: I have a question in reference to paragraph 12. Is a carload rate in Newfoundland the same as a carload rate on the mainland?

Mr. GORDON: These are our special rates between particular points referring to different types of commodities. That would be applicable to Newfoundland.

Mr. CARTER: You do have carload rates for Newfoundland?

Mr. GORDON: Yes.

Mr. CARTER: Would you have a carload rate for cement?

Mr. GORDON: I do not know whether we have. I do not think we have. I would have to look up the particular tariff. However, if there is a carload rate for cement, it would apply to Newfoundland. I take it that your point is you want to be sure that there is no discrimination in respect of Newfoundland with regard to any of these incentive types of rates.

Mr. CARTER: I am interested in the general carload rates for shipments under the incentive rates.

Mr. GORDON: The incentive rates about which we are speaking are competitive rates in which we offer an incentive to shippers to load the cars to the maximum allowable carload weights. If they will do that then we give them a better rate for utilizing the car to the best possible advantage.

Mr. CARTER: If the cement plant at Corner Brook said we have a carload of cement and you place a car at their disposal and they fill it up, would they pay the same rate on that carload as would be paid on the mainland?

Mr. GORDON: Yes; and if there is an incentive rate given then they would get that rate the same as anybody else.

Mr. CARTER: Is there a very big discrepancy between the carload rates and the regular rates?

Mr. GORDON: The carload incentive rates which I have mentioned here are included in special tariffs. It only applies to particular commodities which we have selected.

Mr. CARTER: The incentive rates?

Mr. GORDON: Yes. At the moment I do not recollect that we have a carload incentive rate for cement. Cement is a bulk commodity, you see, and I do not think it is included?

Mr. CARTER: If a shipper in Newfoundland has to pay the same rate on a carload in Newfoundland as his counterpart would pay on the mainland, then the Newfoundland shipper is at a disadvantage because his carload is much smaller.

Mr. GORDON: That would be taken into account. Your cement is a bad example. That is what is confusing me. Cement is a heavy bulk commodity and is not a commodity that would travel to a great extent in trucks. It is only used when we are able to demonstrate to ourselves that by offering incentive rates for loading a carload that we can do it for the same rate as a trucker.

Mr. CARTER: I will switch to plywood.

Mr. GORDON: I can certainly say if there is any incentive rate which is made applicable to the filling of a car, the difference in the bulk capacity in a Newfoundland car versus a mainland car would be taken into account.

Mr. FISHER: At a previous meeting you expressed a certain concern about the fact that more and more automobiles, because of some decision in respect of rates, were being shipped by boat via the lakehead. What has been the effect of the new cars which you introduced to recapture that business?

Mr. GORDON: That has satisfactorily dealt with that situation. The situation with which I was dealing was a practice which had sprung up of certain firms

using university students to drive the car all the way to western Canada and deliver it at the point of delivery as a new car. We put in rates to meet that type of competition and it has effectively cut that down.

Mr. FISHER: What about competition by boat from the lakehead?

Mr. GORDON: Our rates have met that also. The steamship rate was under discussion at that time. There was a lot of discussion about special ships being built for the purpose of handling these cars. That never went through. Our rates, probably were a factor in discouraging the development of that type of competition. We have done another thing. We have developed, in the C.N.R., a new type of car called an auto-transporter, which is designed especially for handling automobiles and will carry eight cars as against three or four in the ordinary box car. We have just got those into service comparatively recently. It is a success. They are in great demand.

Mr. FISHER: In relation to Duluth and the lakehead there has been a great deal of concern about our facilities there. There is a railway there, I think it is the Duluth, Winnipeg and Pacific Railway Company. Is that a line of a standard to compete with your rail line from the lakehead?

Mr. GORDON: In what way? Do you mean operating standard?

I would ask Mr. Dingle to answer the question.

Mr. DINGLE: I would say, yes.

Mr. GORDON: It is not one of our top standard lines.

Mr. DINGLE: No. It is a secondary main line.

Mr. GORDON: Quite adequate for the purpose it is operated.

Mr. FISHER: The decision to go ahead with the lakehead terminal was not one, I gather, which found favour with the Canadian National and the Canadian Pacific Railways. This was a decision which the government made following pressure from western Canada. What was the assessment of the situation at the lakehead

Mr. GORDON: Are you speaking about the joint terminal facilities?

Mr. DINGLE: For the seaway.

Mr. FISHER: Yes.

Mr. GORDON: When the discussion arose, in the first stages the railways made it clear that they did not think it was their business to take responsibility for providing the capital expense for that sort of facility. We never at any time suggested to the government we would not go along with the joint facility and we agreed to join with it at once.

Mr. FISHER: The decision to go ahead was greeted by the trucking associations as a victory in a sense. What plans have you to meet the competition which will develop out of that terminal?

Mr. GORDON: I do not know whether or not I can answer that. The only answer is that our plan is to provide the best service we can from a competitive point of view.

Mr. CHEVRIER: Is there going to be any reduction in the Canadian National Railways' business because of this terminal being set up?

Mr. GORDON: That is what I am wondering about. I do not think so. The terminal facility is being set up there for convenience in respect of moving traffic on a trans-shipment basis. I do not see why we would not be able to maintain our position as in the past. I do not agree with the statement that the truckers had a victory, because as far as I know there has never been a fight.

Mr. HARDIE: May I ask a question, the answer to which may be given at some other time. I wonder if the company could give me a comparison of

the freight rates between Senneterre, Quebec, and Chibougamau as compared to freight from Edmonton to Waterways on the Northern Alberta Railways.

Mr. GORDON: Freight rates on what?

Mr. HARDIE: On, say, ore.

Mr. GORDON: Senneterre to Chibougamau as compared to what?

Mr. HARDIE: Edmonton to Waterways.

The CHAIRMAN: The president might have that answer provided later.

Mr. GORDON: I can answer it now. We do not move any ore from Edmonton to Waterways.

Mr. HARDIE: You move ore from the Eldorado mine at Fort Radium. You move it from Waterways to Edmonton. It is stockpiled all winter.

Mr. GORDON: What kind of ore?

Mr. HARDIE: Uranium.

Mr. GORDON: There is not any moved out of Senneterre or Chibougamau.

Mr. HARDIE: No; but you are moving ore.

Mr. GORDON: Not competitive ore. The rate on uranium would have no significance as between Senneterre and Chibougamau. I am afraid I cannot answer your question purely on the basis of a hypothetical question as to whether we are charging more or less. If you will tell me what kind of shipments you are interested in, then I will be glad to give you any comparison you want.

Mr. HARDIE: It will give you a list of the shipments later.

Mr. GORDON: I will be glad to look at them.

Mr. CHEVRIER: You are saying you must compare like with like when you are moving a commodity over a certain distance.

Mr. GORDON: Quite so.

Mr. FISHER: What are your relations with Canada Steamship Lines?

Mr. GORDON: On a basis of interchange only. We have a close working arrangement with Canada Steamship Lines. We have facilities for them, particularly at the lakehead, at Port Arthur, where we have a big shed; but it is on a basis of interchange only.

Mr. FISHER: Has there been any discussion in the past year as to the rates charged at the lakehead for iron ore?

Mr. GORDON: Yes.

Mr. FISHER: Have those rates been raised in the past year.

Mr. GORDON: I do not think so. However, they have been raised over a period of some years and the agreement which we have reached with the Steep Rock people in respect of both the companies operating there is that our rate will fluctuate more or less in harmony with the rate with which they are in competition.

Mr. FISHER: There have been some rumours to the effect that there may be an extra ore dock built at the lakehead. Will that affect your planning at all?

Mr. GORDON: That is our planning. We have already extended the ore docks and finished them last year. We will replace the wooden trestle and we have plans to keep ourselves abreast of the production of ore in the area so that we can handle it at the ore dock.

Mr. ROBINSON: I think that you said that the matter of cement trucking did not provide much competition. Do you not say that the larger haulage of cement and flour in these bulk haulage trucks is taking some business?

Mr. GORDON: It is increasing. I had particular reference to Newfoundland.

Mr. ROBINSON: In Ontario we see a lot of cement being delivered by bulk haulage trucks.

Mr. GORDON: Yes. It is increasing. I cannot resist the comment that it is raising hell with the highways.

The CHAIRMAN: Shall we proceed to the heading "Passenger".

Mr. ROBINSON: Under this heading, could the president tell us if there is any movement towards more railiners and Budd cars?

Mr. GORDON: Yes. We have increased our service in that respect and have a number of plans and items in our budget for it. My statement shows 27 units in service. We also have studies in hand which we feel certain will require about 15 additional units in 1958. We have provided in our budget for the purchase of these additional units. We are continuing our studies of areas where we think these units would be advantageous in respect of service and reduction of cost.

Mr. ROBINSON: Is there in some countries, probably not in Canada, a system in vogue where they use an automobile bus on the rail?

Mr. GORDON: I do not know of any successful effort in that direction. It was one of my pet hobbies when I came into the railway, but it was shown to me that it was completely impracticable. We have cars of that type which we use for maintenance purposes, but from a standpoint of passenger operation it was revealed that it would not be practicable.

Mr. ROBINSON: In paragraph 15, I notice that commuters represented 37.4 per cent of all passengers carried and contributed 3 per cent of passenger revenues. Just offhand, that would strike me as being subsidized a bit.

Mr. GORDON: There is no doubt about it. Our commuter services are all unprofitable and will continue to be so if not more so. Our passenger service as a whole is unprofitable and will continue to be so. It is the big headache in the railway business. Commuter traffic is a special degree of headache.

Mr. ROBINSON: I take it that commuter traffic is around the larger cities?

Mr. GORDON: Yes. It is only at a place where there is heavy traffic density that we are involved with commuter service. We have been getting out of it wherever we can. We abandoned the Montreal-Southern Counties service over the last few years.

Mr. ROBINSON: Would you say that the commuter traffic is mostly for labour?

Mr. GORDON: No. If you look at the commuter train coming into Toronto in the morning you will find that there is a pretty general cross-section of types—clerks, businessmen and so on. I would not say that it is basically for labour. It is a general cross-section of the community.

Mr. ROBINSON: Would you say that commuter service is catering to centralization in the cities, and if it was not there do you suppose there would be little encouragement for decentralization?

Mr. GORDON: There is an element in it. Certainly if the rapid transport service were not provided it would be less attractive to live in these areas. I do not think the abandonment of rail service would be the answer. Buses would come into play and also private cars and more subways would be asked for.

Mr. ROBICHAUD: In paragraph 16 it shows that the Canadian National carried a total of 95,500 immigrant passengers from eastern Canadian ports. Are these transported at a special rate or at the regular rate?

Mr. GORDON: They have a special rate, as I recollect it. This is another of these complicated things. I think I can answer the question generally by saying that in collaboration with the steamship companies we transport immigrants from the seaboard to all parts of Canada.

Mr. CHEVRIER: Does the government pay any portion of that?

Mr. GORDON: No. In the main immigrants are carried on special trains and in this way we can handle them more expeditiously than we can on a regular scheduled train.

Mr. CARTER: Would you attribute the decline in commuter service to the raising of the commuter fares?

Mr. GORDON: No. In part, perhaps; I will not say no. But we have abandoned some commuter service. The one I have in mind is the Montreal-Southern Counties line.

Mr. CARTER: Have you discontinued the night train on Sunday between Toronto and Ottawa, or Toronto and Montreal; have you reduced the service between Toronto and Ottawa?

Mr. ROBINSON: I would not be here this morning if they had.

Mr. CARTER: I arrived in Toronto by air and was grounded there and called up on Sunday night for a train and I was told that there was no train.

Mr. GORDON: I do not have the Toronto-Ottawa schedule here.

Mr. ROBINSON: I think Mr. Carter is referring to the fact that on Sundays in the summer the second section does not run on certain nights.

Mr. GORDON: Yes. On Saturdays and Sundays from June 7 until September 7, inclusive.

Mr. FISHER: I would like to ask Mr. Gordon a question. Last year in answer to a question from Mr. Hamilton of York West you said the reason that you switched from steam right over to buses from Fort William to Longlac was, "We have made an analysis which shows we could do it cheaper with buses than with a railiner." Then later you said, "It is reducing our losses. Again I have not analyzed it and I do not know whether it has an over-all profit." Could you give me any analysis of that particular service? The two union locals asked me to check to see if there could be a railiner put on there. I received a very perfunctory answer from your office. I would like to have a bit more information. I know it is a point which will be brought up again when I go back.

Mr. GORDON: I have not got it specifically before me, but I will look into it. I am sorry to hear you would ever get a perfunctory answer from the Canadian National Railways.

Mr. FISHER: This was a perfunctory answer and it was after a considerable interval of time.

Mr. GORDON: It should not have been.

Mr. FISHER: I would like the information.

Mr. GORDON: On the railiner versus the use of the Bus.

Mr. FISHER: Yes.

Mr. GORDON: It has not been before me. I will have to get the information for you.

The CHAIRMAN: Are there any other questions on passenger?

Mr. ROBINSON: In 17—would there be a breakdown available of the dining car services?

Mr. GORDON: What kind of information?

Mr. ROBINSON: On dining car service. Have you separated that out?

Mr. GORDON: Well, I hardly know where to start. You are thinking of dining car service itself?

Mr. ROBINSON: Yes.

Mr. GORDON: Some of these figures may be of some interest to you. We served in the year 1957 342,429 meals at an average revenue of 99 cents per meal and that would have resulted in a loss. I do not see it here. I am only giving you dinette figures. The number of meals served all told over the whole system was 2,530,093, and the average revenue was \$1.48. Our average cost was \$2.21, so we lost about 73 cents a meal.

Mr. ROBINSON: That would amount to quite a figure to subsidize the dining cars?

Mr. GORDON: Yes, the total loss on all our service of meals covering all types of diners, dinette cars, cafe, buffet cars, and so on, is estimated at practically \$1½ million, that is, after out-of-pocket expenses only. It does not include transportation expenses for hauling the cars and that sort of thing.

Mr. ROBINSON: That would make it much more?

Mr. GORDON: Yes, if you added them together.

Mr. CARTER: Is your buffet car becoming any more popular?

Mr. GORDON: The buffet car has been well accepted. The result for buffet cars shows the number of meals served as amounting to 1,686,272 against 1,618,985 in the previous year and our loss has declined somewhat. We had \$1,580,000 against \$1,663,000.

Mr. CARTER: When you say the buffet car, is that the cafeteria car?

Mr. DINGLE: The buffet has a combination lounge and dining section. The other car you are thinking of is the cafeteria car. We are experimenting with it.

Mr. GORDON: We have only started on the cafeteria car. We only started with this service last year on an experimental basis so the results are not complete, but they have shown some gain. We have only had a total of about \$59,000 revenue at the moment, and we have lost about \$19,000 in the process, but it is a popular car and the ratio of loss is less than in the other cars.

Mr. CHEVRIER: I wonder if I can bring a small matter to your attention. I have a note here, not from one of my constituents, but which was brought to my attention and it is a short letter which I would like to read to you on this subject:

Sir,—

I am taking the liberty of forwarding to you under separate cover, a little plastic package of breakfast marmalade for which I paid twenty-five cents in the club car of the Canadian National's remarkable train from Chicoutimi to Montreal. Please do not offer it to any hungry member of the house. I would rather solicit your good offices in having it returned to the appropriate department as it would appear that the C.N.R. needs the money more than I do.

I pass it over to you, not in criticism, but I think perhaps it should be brought to your attention for what it is worth, and I am sure you will not use the letter to which it is attached.

Mr. GORDON: I am interested to have this because my first reaction is that I think it is a sample provided by the Kraft people, so I do not see anything wrong with that. It looks clean to me. I have not tasted it yet but if the person in question wants more marmalade he can get it by paying for it.

Mr. CHEVRIER: It seems rather expensive.

Mr. GORDON: It is a free country, he does not have to buy it.

Mr. CHEVRIER: If you are interested I will let you have this letter for what it is worth.

Mr. GORDON: Shall I keep this?

Mr. CHEVRIER: Yes, but bring the letter back.

Mr. ROBICHAUD: Mr. Gordon, would you tell us what is the main objection for members of parliament not being able to use passes on the Super-Continental unless they have special permission and the special permission is difficult to get at the last moment. I am talking of transportation to the eastern provinces where we have to make connections in Montreal. I can give one instance where my own wife missed her connection in Montreal. Has the traffic been heavy?

Mr. GORDON: Well, the difficulty with the Super-Continental is that it is an absolutely specialized train that is geared to make as fast time as it possibly can. In order to do that we have to keep the equipment on as limited a basis as possible, so we felt in regard to a specialized train that we were justified in ruling against all pass travellers. We do not allow any use of passes at all on that train except with special permission. It is certainly my understanding that we have always given those permits to members' wives when asked for, but we cannot make it a general rule for pass-holders. Of course there are no restrictions on members themselves.

Mr. SMITH (*Simcoe North*): Has travel on the Super-Continental generally been on a reservation basis?

Mr. GORDON: I do not think we ever put a reservation system on coaches, no. I remember discussing it but I do not think it was ever implemented. It was discussed. We found it was impractical to reserve coach seats. We would have had to charge 75 cents or something like that.

The CHAIRMAN: Does that answer your question, Mr. Robichaud?

Mr. ROBICHAUD: Yes.

Mr. FISHER: The Ontario Northland Railway has recently reduced the prices of meals on their dinettes, which I think was through a change of model. Do you know if they are losing money?

Mr. GORDON: I cannot speak for them, but I should expect they would, knowing of the fact that we lose money on meals. Of course, do not take me as answering these questions in a critical sense. We quite recognize if we are going to attract passengers, meal service is part of our loss leader. What we are attempting to do is keep our losses as moderate as possible. We have tried quite a number of experiments over the years to reduce costs, but the Canadian public has been pretty well educated to a standard of luxury. These loss leaders are governed by the necessity of meeting competition.

Mr. GRILLS: We own the Canadian National and you would think it would be to all their individual advantages as well as for Canada as a whole for people to use the Canadian National. Do you ever use that in your advertising?

Mr. GORDON: No, we never have. I think the Canadian people are very conscious of the fact that they own the Canadian National. If they have a complaint to make they look upon it as one of their own services and certainly complain. I would question very much if there is much in the way of deliberate decisions in respect of preference or otherwise because it is a state-owned railway. I do not think that is an active factor.

Mr. CARTER: Do you have any comparative costs of meal services on the Newfoundland trains as compared with the rest of the country?

Mr. GORDON: I do not know if I have that particular information. We should not do this. It does not serve any good purpose.

Mr. CARTER: The point I was coming to is there is quite a discrepancy in the service and meals on the Newfoundland trains, not that the service is not good, but the meals are not the same as you get on the main line. You cannot obtain the same menu on the Newfoundland train as you can on the main line.

Mr. GORDON: Of course, part of our reason could be that we try as much as possible to use Newfoundland products.

Mr. CARTER: I think if you concentrate on Newfoundland products you will vary the fish menu? It has not changed since confederation.

Mr. GORDON: Surely the fish itself has varied since then.

Mr. CARTER: I do not know, I have been worrying about it. You can get fresh fish out of Port aux Basques every day of the year and we do not get it. In the buffets leaving Port aux Basques they use cold storage fish which they have obtained at St. John's and what is the point in having cold storage fish at all?

Mr. GORDON: I will look into this particular question because fish is a hobby of mine. I think fish could be cooked and prepared in a much better way than it is done in most restaurants and I will be glad to communicate in personal correspondence with you about Newfoundland fish. I will tell you how we get it, who we get it from and you can see what the problems may be. You must remember that to keep fish in condition requires equipment.

Mr. CARTER: But you have your own "Canex" equipment.

Mr. GORDON: I do not know if the "Canex" equipment would be appropriate in a dining car.

The CHAIRMAN: Are there any further questions on passenger here?

Mr. FISHER: You have slowed your eastbound time on the Supercontinental and I understand one of the reasons it was slower than the westbound was to make the Supercontinental running from Ottawa to Montreal compete with the airlines. What led to your decision to lower the elapsed time?

Mr. GORDON: Well, I know it was due to the fact that we have been engaged in the past few years in improving our roadbed in Western Canada. We are now able to run our trains a little faster as the result of that expenditure in the western region. In the western region the rails generally were not of the standard over which we felt we could run our fast trains and there has been that apparent improvement in the operating section in the western region.

Mr. DINGLE: Yes, we are now making the same time east and west—70 hours and 50 minutes.

Mr. FISHER: Have you lowered the percentage of lost time this year? I understand one train in three lost time.

Mr. DINGLE: We have increased our efficiency, yes, and our operations are much improved this year over last.

Mr. FISHER: Fewer lost time trains?

Mr. DINGLE: Yes, sir.

The CHAIRMAN: Any other questions? If not, what are your observations with regard to express?

Mr. TAYLOR: I would like to ask if Mr. Gordon can tell us what progress is being made to establish these semi-express offices at coastal ports.

Mr. GORDON: Well, that raises the general question of our Newfoundland division. I would have to refresh my mind on that. I was assuming that somewhere along the line when we got into operating budget you would have a lot of questions on Newfoundland and I think you will find it in that.

Mr. FISHER: Does that include the activities of this Newfoundland railway benevolent association?

Mr. GORDON: Yes, we will be able to tell you about that. Your interests range wide, Mr. Fisher.

Mr. FISHER: It is just ranging pretty wide in this case.

Mr. GORDON: I agree with you it is an unsatisfactory situation.

The CHAIRMAN: Any other questions on 21? If not, what about the revenue of Canadian National communications?

Mr. SMITH (*Simcoe North*): Is this a profitable part of Canadian National Railway's operations?

Mr. GORDON: Yes, it is included in with the operations. Broadly speaking this is a profitable operation. In fact, I go further and say here that on our most recent analysis all the operations of the Canadian National Railways are profitable except railway operations. It is the railway that loses money not our others operations.

Mr. FISHER: This may be futuristic but has your research department taken any notice of experiments by the research people of Westinghouse and others of the development of this long-range micro-wave beam?

Mr. GORDON: Yes, we are in very close touch with all these technical developments in our research department. We have people in microwave and coaxial cable, we have been very closely in touch with British manufacturers as well as American manufacturers and I think we are right up to date on it.

The CHAIRMAN: Any other questions on communications? If not, 23—Other Revenues. Mail revenues increased by 12.8 per cent and so on.

Mr. ROBINSON: Mr. Chairman, I wonder if Mr. Gordon could tell us if there was any money made from the mail services as a whole?

The CHAIRMAN: Well, it says here mail revenue increased 8.8 per cent. I think he answered that when he said all services were profitable with the exception of rail.

Mr. GORDON: These increases in mail revenue follow on an agreement we have concerning general freight rate increases and, moreover, in our negotiations with the Post Office Department we endeavour to produce figures to show that our costs are at least met. That is plain justice. I would say, that we should at least make our costs and show a little profit.

The CHAIRMAN: Paras 26 and 27. There was a wage and material cost increase of \$7.5 million and transportation expense increase of \$3.8 million.

Mr. ROBINSON: In connection with that has it been the custom of the company to discourage certain lines from carrying mail?

Mr. GORDON: It would depend on circumstances. I would say yes, we have in particular cases when we are applying for abandonment of the service where the mail would be the main factor for keeping up the service and if we can provide that service by truck we have done so. I think Prince Edward Island is a case in point. We are quite alert to that and if we can provide substitute service for mail that is cheaper than railway we have done that.

Mr. ROBINSON: Say you have a line that was carrying mail, would there be any reason for this taking away of mail on that line?

Mr. GORDON: Only after the post office department decided. It is quite possible that they could get better service by truck and they have taken mail away from us and transferred to a highway contractor.

The CHAIRMAN: Haven't you places in your district that very often when they have taken it away from the railway they have provided more efficient service?

Mr. ROBINSON: It is more flexible.

The CHAIRMAN: And the post office department would naturally think of that.

Mr. ROBINSON: That might be true but I know of a case where the instigation of dropping mail service came from the railways.

Mr. GORDON: That had to do with the abandonment of a service?

Mr. ROBINSON: Probably looking to the future, yes.

Mr. GORDON: If we did that it would certainly be because there was an alternative service and probably better than the railway.

Mr. ROBINSON: Well, the instance I had concerned two lines up in our district and the mail service was discontinued, probably about three years ago and the trains are still running there. So this looked as though the company's plan was to make the revenue on that line deteriorate and they could eventually go to someone with the alibi for discontinuing part of its service.

Mr. GORDON: I would take issue with that. I do not think we would do that. If the mail revenue combined with other revenues in the freight service was enough to justify a continuation of that line we would be the last people in the world to ask to abandon it. It may well be in this particular situation that all we had in mind was that we wanted to abandon it and we probably approached the mail people and told them they should look for an alternative service.

We were able to show we were operating on a loss.

Mr. CHEVRIER: Does an application for abandonment of a line have to go to the Board of Transport Commissioners?

Mr. GORDON: You know the board sits in judgment on our presentations.

Mr. CHEVRIER: Has an application for discontinuance of service to go before the board?

Mr. GORDON: Oh yes, definitely where there is complete withdrawal of passenger service.

Mr. ROBINSON: Mail service?

Mr. GORDON: Oh yes, and the Board of Transport Commissioners would have to be shown and it would have to see that real public interest was not being prejudiced. The Board of Transport Commissioners is a very hard judge.

Mr. ROBINSON: As far as we are concerned too.

Mr. PASCOE: I was going to ask this be referred to, this negotiation with the post office. It says:

The matter was recently brought to a head by a decision of the C.N.R. to reorganize their train operations between Regina, Saskatoon, North Battleford, Lloydminster, and Edmonton, in which R.P.O. (Railway Post Office) service functions. The company has decided to instal R.D.C. equipment with schedules unsuitable for mail service and further, the equipment would not have sufficient mail accommodation west of North Battleford.

The elimination of the R.P.O. in the trains, make necessary the development of highway service . . .

They have given it to trucks. I know this particular passenger service, I take it myself from Saskatoon.

The CHAIRMAN: What are you reading from?

Mr. PASCOE: It is a post office item. I wondered if loss of revenue from the Canadian National . . .

Mr. GORDON: You see, there has been quite a change in the post office methods of delivering mail. I do not know this particular case. For instance, we used to run a lot of trains where the mail was sorted en route by postal employees in the railway postal car.

The post office is getting away from that more and more and that has an influence on whether or not they find it advantageous to use our service.

Mr. PASCOE: They say that you started this one by dropping that service.

Mr. GORDON: But we could not drop that service.

Mr. PASCOE: I mean change the service.

Mr. GORDON: We could not do it. You have got to get this in sequence. All railways are required to carry mail as part of the statute. We cannot refuse to carry the mail. We can, however, make representations to the post office that the particular service would be better in some other way, say performed through the post office themselves.

We do not go to the post office and say arbitrarily "We are not going to provide the service". They can force us to carry the mail but we cannot force the mails off. If we have a loss on the service we would want to abandon the service which would mean that we would clear it with the post office first. If we first went to the Board of Transport Commissioners and asked for abandonment the Post Office could come right in there.

Mr. PASCOE: Was there a loss of revenue because you are not carrying the mail now?

Mr. GORDON: There was certainly a loss of net revenue.

The CHAIRMAN: The post office makes you carry the mail whether you are losing on it or not.

Are there any further questions on 23?

If not, we have heading 24—Total operating expenses \$31.3 million. We had wage and material cost increases of \$31.8 million, higher depreciation charges. What is your comment on that particular item? It is a matter of fact, I guess.

Mr. GORDON: I think it speaks for itself.

Mr. ROBINSON: Mr. Chairman, I wonder if the president could give us a comparison of the operating costs compared with the Canadian Pacific?

The CHAIRMAN: I do not know how you would get the Canadian Pacific report?

Mr. GORDON: I can give you the comparison but you are comparing different things again. The higher portion of the Canadian Pacific railway operating cost is certainly in the railway section, but so far as that goes a comparison of costs does not mean anything unless you relate it to the volume of traffic and things of that kind.

For example, I can show you here that our total operating expenditures referred to in our report are \$734,556,000 and those of the Canadian Pacific Railway are \$417,785,000.

Mr. ROBINSON: Can that be cut down into miles or anything like that?

Mr. GORDON: Yes, you can examine it roughly this way,—that the Canadian Pacific Railway is roughly 60 per cent of our size. We are a much bigger railway and much bigger operationally than the Canadian Pacific Railway. The ton miles of revenue freight, which is our bread and butter, on the Canadian National Railways in 1957 was 36,674,000,000; on the Canadian Pacific Railway it was 27,281,000,000. On the United States class one railroads, which represent the larger railroads in the states, it totalled 618,094,000,000.

In the light of these figures you will see that the actual traffic handlings on the Canadian Pacific is roughly about 60 per cent of the Canadian National Railways.

Mr. ROBINSON: What I was wondering if I could find out was,...

Mr. GORDON: Were you talking about mileage operated?

Mr. ROBINSON: Yes.

Mr. GORDON: The mileage operated on the Canadian Pacific Railway in 1957, that is the actual mileage on the roads they are operating is 17,097. On the Canadian National Railways it is 24,497. Those are main line tracks. In addition to that on the Canadian National we have about 10,000 miles of yard tracks, subsidiary tracks, etc. which makes roughly about 35,000 miles of trackage.

I do not know if we have that other figure for the Canadian Pacific Railway, but it would be about 60 per cent.

Mr. ROBINSON: I do not know whether I have got myself clear yet or not, but I was under the impression from something I read that the Canadian Pacific Railway were operating cheaper than what the Canadian National was per mile of everything covered?

Mr. GORDON: Yes, I think that is correct.

Mr. ROBINSON: In that case I was just wondering, can you tie it down to any certain line where that costs the company more than it does the Canadian Pacific.

Mr. GORDON: It is perfectly true that the operation of the Canadian Pacific Railway on a mileage basis is cheaper than on the Canadian National. There are quite a number of reasons for it as I mentioned to Mr. Broome earlier this morning. One of the reasons is that the Canadian National Railways services have far more thin traffic lines than the Canadian Pacific. There is this further factor, and we have not discussed it yet. The Canadian Pacific Railway has developed and has been built as a planned and integrated line. It grew along their base line and spread out from this main trunk line. The Canadian Pacific Railway was built as a cohesive unit.

The Canadian National Railways in 1923 took over six major operating lines that were built to compete with each other, so that we had further overhead in the nature of duplication of facilities, terminals, branch lines, and so on, and even to this day we cannot say they are coordinated. As a result our transportation ratio is five to seven points higher than that for the Canadian Pacific Railway.

Putting it another way, if we were able to achieve the same transportation ratio as the Canadian Pacific our results for 1957 would have been \$45 million better. That is something we are working on and we are making headway with it.

Mr. ROBINSON: Would I be right in thinking if we were not a government-owned railway we could have a better chance to hold our end up and compete with the other lines financially?

Mr. GORDON: That opens up a very broad question as to the extent to which management is necessarily hampered by the fact that we are publicly owned. The fact is that while there is no active interference with management from a political point of view I would say that the Canadian National Railways is consistently under pressure from members, criticism from railway labour organizations, employees, and from other people in the country who feel that because the Canadian National Railway is a publicly-owned railway they have a right to protest.

In the nature of things we of the Canadian National Railways try to be humane about these things and might not proceed as ruthlessly as a private corporation in cutting expenses, and so on.

In other words, we are a considerate group and give further consideration to continuing a service even though it might lose money.

Mr. CHEVRIER: Is that not one of the prices we have to pay for having a public line on the one hand and a private line on the other?

Mr. GORDON: I think it is a matter of degree. It can go too far. It is a constant concern of management. Take the case of our labour. As you know, you get delegations all the time at Ottawa to the Minister of Transport and the Prime Minister in respect of lay-offs and other things. You never get delegations in respect of Canadian Pacific matters. We get hell if we try to reduce expenses on the Canadian National but the Canadian Pacific does not, because that is a private company and everybody really thinks they are in business to pay expenses. We are up against resistance all the way. I am not complaining. All I am saying is that it is much more difficult and these factors affect our operations in some degree.

The CHAIRMAN: That is the tough thing about public ownership.

Mr. ROBINSON: Would I be right in making this statement, that it does not seem fair to me that in some districts our service is getting curtailed and yet we find other districts which, as was brought out about the dining car service, are losing money and yet we have to pay our portion to subsidize these losses?

Mr. GORDON: You put your finger right on the point of the constant argument as to whether management in the Canadian National is doing what might be called even-handed justice everywhere. Where we adjust our service we try to be as objective as we possibly can and, moreover, when it comes to the question of the provision of service you have the established Board of Transport Commissioners for the purpose of protecting the public interest. We have to establish without peradventure that what we are doing is justifiable and non-discriminatory and not against the public interest. As I say, in Newfoundland, as Mr. Carter will be the first to tell you, what we do for them is compared with what we are doing in western Canada, and if we do something in western Canada they will want to know why we are not doing so much in Toronto. Probably you have the idea. It is just human nature. All I can do is assure you, speaking for management, that we bend over backwards to try to be fair.

Mr. CARTER: I suppose you are making a further comment on this additional depreciation later on?

Mr. GORDON: Yes.

Mr. FISHER: I want to ask a general question. You have hinted for several years that the future in passenger service may be a de-emphasis on transcontinental line and emphasis on inter-city service.

Mr. GORDON: Yes.

Mr. FISHER: What will be the effect there as far as operating expenses are concerned?

Mr. GORDON: We are making the most meticulous analysis. We have got to get down to cases as to the type of service particularly on this transcontinental line and we have got to decide whether we are justified in operating what might be called a Super-Transcontinental service or whether we would be better to concentrate on the adequate rather than the spectacular operation.

For example, we have cut the time, as you mentioned a few minutes ago. That costs money. We cannot cut down the scheduled times on any train without having regard to their greater cost and we have to plan that and

decide whether it is worthwhile. Are we going to be able to use a type of train in our passenger service that will be reasonable in terms of its loss?

We took the gamble in respect of the "Supercontinental" and so did the C.P.R. in respect of the "Canadian," to see if by putting on a "super-duper" type of railway passenger service we could give effective competition to the airlines and the buses—mostly the airlines. Now we have had three years of that experience which has been most discouraging. We are looking at it now to see what is the next step.

As far as I can see at this moment the next step will be a curtailment rather than an enlargement of service. We will, in any curtailment, keep in mind the question of the convenience of the public; but the Supercontinental is not a success really.

Mr. FISHER: Do you think there would be some compensation in a switch to inter-city emphasis?

Mr. GORDON: We think there is a field there, particularly in the developments we see in air transportation; for instance, where they are going heavily into jet planes. The jet cannot be economical in short distances; it has to handle long-distance travel for maximum efficiency. If you were to fly a jet plane between Toronto and Montreal, by the time you got the jet plane up high enough in the atmosphere to be operated efficiently it is time for it to come down. It may be in a short run that the jet plane will be uneconomical. So again, it may be the case that the railways will find a field for fast and frequent services between larger cities, not linking them into a continuous Transcontinental service going right through to the coast.

We were speaking about the trans-continental service from Montreal and Toronto to Vancouver and back. One train set involves a capital expense of roughly \$3 million. It takes sixteen sets of trains going around and around, and that is sixteen times \$3 million.

Mr. FISHER: My constituency would be one of the first to suffer. I imagine you will increase first in the Montreal and Toronto areas.

Mr. GORDON: It depends on what you mean by suffer. We may improve the transportation from the outlying areas to the main cities, such as Winnipeg; but it would not necessarily improve the service from your constituency through to Vancouver, because we find in our analysis that only about 10 per cent of the passengers who board a train in Montreal go through to Vancouver.

Mr. FISHER: Can we expect from the railway some kind of a decision, say reasonably soon on this particular point.

Mr. GORDON: Not necessarily a complete decision, but some gesture along that line.

Mr. CARTER: In respect of the pooling of trains, do you do that by mutual arrangement, or is there any compulsion on either railway with reference to putting up pool trains?

Mr. GORDON: There is no compulsion except under the general C.N.-C.P. Act. The railways are required to examine all possibilities of were it is possible to reduce costs. If pooling between the railways is the answer we have to get together to examine what can be accomplished in pooling. We have a committee which talks about that constantly but does not get very far.

Mr. CARTER: Are you convinced that by the pooling of trains you are saving expenses?

Mr. GORDON: I do not think there is any doubt about the actual saving of operating expenses. I have considerable doubts as to the wisdom of pooling. That is one of the things we are constantly trying to talk ourselves out of, or into. The pooling arrangement went into effect in the 'thirties. It was a depression-prompted device to cut our expenses. With the growth of the

country there is a question mark as to whether the pooling system has an overall advantage, although it can be demonstrated in dollars and cents that we are saving amounts running into the millions in the pooling arrangements, which are now operating, in terms of out-of-pocket expenses. But whether or not it operates to the long-range advantage of ourselves or the C.P.R. is a question mark.

Mr. FISHER: I have been studying this question for a member of years and have not seemed to have reached any conclusions. Are these bilateral discussions?

Mr. GORDON: Yes.

Mr. FISHER: What are the main stumbling blocks?

Mr. GORDON: I wish you could take a look in my file. We are having discussions all the time. We have a meeting and talk about it and either one side or the other wants more information. Then you start to make an analysis which takes months and by the time the analysis is complete it is invalid, and it goes on and on.

Mr. FISHER: Would you say that the C.P.R. has been cooperative throughout the whole discussion period?

Mr. GORDON: I would rather you ask them if they think we have been co-operative. It is a matter of opinion. We have met continually and we have been honest with each other. It is very difficult to get officers of competing organizations to agree on what is the particular interest. For instance, in our pooling arrangements between Toronto and Montreal, we run a pool train out of Windsor station and our officers think that is terrible. Take the pool between Ottawa and Toronto. It is operated by the C.P.R. If we were to break the pool now, we would in turn have to provide a service between Toronto and Ottawa. Our line between Toronto and Ottawa has been allowed to go down into the category of a freight line only. We would have to spend I do not know how many millions of dollars to rehabilitate the line in order to bring it up to fast passenger train standard. If we did that I am not certain that we would get enough traffic to justify such an expenditure.

Mr. FISHER: There has been a marked reduction in the number of maintenance of way men.

Mr. GORDON: Yes.

Mr. FISHER: I have had, especially, complaints from North Bay westwards. Could you give us sort of a statistical picture as to the decrease from, say, North Bay to Winnipeg as to the number of maintenance of way men and what it has meant in savings in labour costs.

Mr. GORDON: I would find it very difficult to pick out a single line in an area and make an analysis. It would take a good deal of time. I will tell you the background and you can see how it fits into your point.

After the forty-hour week came in, the railways embarked on an intensive mechanization program to see if they could adjust the forty-hour week to our railway operations. We provided much more mechanization so that a maintenance force could cover much more mileage than before. That reduced the need for the numbers of section gangs. However the mileage covered is governed by the line's physical characteristics and the sections vary greatly. It would require quite an analysis to answer your question in particular.

Mr. FISHER: The point which was brought up to me is that the men along the line feel that the railway has not considered the safety factor.

Mr. GORDON: That is absurd.

Mr. FISHER: Probably it is; but how does a member of parliament answer complaints like that?

Mr. GORDON: The answer simply is that if there is one thing of which railway management is always conscious it is the safety factor. We would never make any amendment in our inspection service or track maintenance or anything else which would reduce the safety factor. Mr. Dingle is our operations vice-president and I would like to hear what he has to say about it. The safety factor is, economically speaking, a nuisance, but to Mr. Dingle it is his job, and he will not permit me nor anyone to reduce that.

Mr. DINGLE: What Mr. Gordon has said is true. We certainly do not sacrifice safety. We are spending a lot more capital on our track structure and track maintenance equipment than we did before, and for that reason our maintenance costs are being reduced.

Mr. FISHER: What about the problem of broken rails? Does it tend to disappear in your switch to dieselization?

Mr. DINGLE: No, but of late there has been a reduction because of better rail maintenance and detection services.

Mr. GORDON: The way the engineers explained it to me is that with a steam locomotive the piston and driver action gives tramping effect on the rail whereas a diesel locomotive has a smoother drive and does not produce the pounding effect. If anything, a diesel locomotive must be more kind to a rail.

Mr. FISHER: I think there was the case of a train running out of Sioux Lookout with a steam locomotive and you had broken rails all along the line.

Mr. GORDON: Aside from our careful visual inspections, we put on Sperry cars which are one type of the pieces of equipment we use.

I have a note reminding me that the C.N.R. won the National Safety Council fifth annual award for public safety, and only seven other Canadian and United States railways were so recognized for 1957.

I would like to say most emphatically that we do not compromise with safety under any circumstances.

Mr. SMITH (*Simcoe North*): What is the operating crew of a dayliner?

Mr. GORDON: It depends on the number and type of units. A one-car unit could have an engineman and conductor.

Mr. SMITH (*Simcoe North*): How many passengers would it carry?

Mr. GORDON: It depends on the type of car; there are four different units.

Mr. SMITH (*Simcoe North*): How many passengers would a dayliner carry with a crew of two?

Mr. GORDON: A straight passenger dayliner has about 80 odd seats.

Mr. SMITH (*Simcoe North*): On a run of up to 100 miles what average speed can it accomplish?

Mr. GORDON: It is too bad that we always have to qualify our answers. In this instance it would depend on the run and on the condition of the track.

Mr. SMITH (*Simcoe North*): What I am thinking of is the matter of semi-commuter traffic and competition between a dayliner and a bus from Barrie or Orillia or Midland?

Mr. GORDON: If we were running a dayliner between Ottawa and Montreal we could run it up to 80 miles an hour or perhaps more. That is a first-class line.

Mr. SMITH (*Simcoe North*): Could you average, for example, on that run a speed of 50 miles an hour?

Mr. GORDON: It would depend on the number of stops. If we were able to make a non-stop run from Ottawa to Montreal, I would think we would be able to average well over 60, even allowing for places where we would have to go slow. If there are any stops at all you lose a lot of time.

Mr. SMITH (*Simcoe North*): I am thinking more in respect of short lines such as the 60 miles from Toronto and Orillia.

The CHAIRMAN: In that 60 miles you have about six stops and starts.

Mr. GORDON: Again you have to know the locality. Take an area around Toronto. The difficulty there is it is terribly congested. We are almost at the point of saturation on our line between Toronto and Hamilton. We could not put more trains on there. We would have to build another line. Remember always that while most people are intrigued about passenger service, our bread and butter is freight; only about eight per cent of our actual earnings come from passenger service. While naturally we have to give the passenger trains the right of way, from the railways' standpoint it is freight we want to move.

Mr. MONTEITH (*Verdun*): I would like to ask a question in respect of pool trains. What proportion of equipment is provided by the C.N.R. and what proportion is provided by the C.P.R. Is this on a fifty-fifty basis?

Mr. GORDON: No. It really does not matter which one of us provides the equipment. It is worked out on a wheelage basis and expenses and revenues are shared depending on the equipment which goes into the particular train. We may operate the majority of the equipment between Montreal and Toronto and the C.P.R. between Montreal and Quebec, and from Toronto to Ottawa. Then there are instances where we provide the dining car. But it does not make any difference because whatever equipment goes into a pool train the revenue and expenses are worked out on a wheelage basis formula and our share dependent on the amount of equipment which goes into the operation. That covers not only passenger cars but also motive power which is the big cost item.

Mr. FISHER: Could I ask for the details of the arrangements which you have with R. F. Welch Company for recruiting labour in Europe for you?

Mr. GORDON: Yes.

Mr. FISHER: And what service charge there is for that, if any?

Mr. GORDON: Our present arrangement is that Welch recruits labor required over and above local labor secured by the Railway for extra gangs.

The fee charged for recruiting labour by R. F. Welch is 3% of wages earned by each recruited worker during an uninterrupted term of employment. Cost of board to all men in gangs was reduced from \$2.31 to \$2.10 per day, and a subsidy of 30c per man per day was paid to R. F. Welch, so that on that basis the fee paid by the Company, works out, if you want to put it that way, at the rate of 30c per man per day, plus 3% of the wages earned by men recruited by Welch.

Mr. FISHER: What was the total amount they received in 1957?

Mr. GORDON: I am afraid I do not have the figure available.

Mr. FISHER: Never mind. Has the arrangement generally been satisfactory to the unions?

Mr. GORDON: We have had no complaint from the unions since we made the last arrangement.

Mr. FISHER: Are there any plans to bring over any labour in this period which is coming up?

Mr. GORDON: I do not know precisely what the Welch Company did this year, but my impression is that they recruited all labor in Canada.

This has been a very useful arrangement for the railways all through the piece because the Welch people have been able to deal with a class of labour, on a sort of rehabilitation basis and they have over the years, brought in people from such places as Italy who have proven useful to the industry.

In addition they have provided a useful social service. By rehabilitating many people by finding jobs for them. They took them on gangs on the railway and that is where we got a lot of our recruitment for certain types of work.

The CHAIRMAN: If there are no other questions in respect of operating expenses at this stage, we might proceed to wages.

I thought, with your consent, that probably 12:30 would be a good time to adjourn.

Mr. CHEVRIER: If we are going on, may I ask Mr. Gordon if, over and above the statement contained here in reference to the dispute concerning the non-operating unions, if he would be good enough to tell the committee where the matter stands? First, I wish he would comment with reference to the amount claimed. What does it represent by way of an additional freight rate increase if such a demand is granted? Also is the Canadian Pacific Railway in the same position as the Canadian National Railways? Could we have a statement on the present position of this dispute?

Mr. GORDON: I would be glad to do that. I might work on that over the noon hour and make a statement at the opening of the committee in the afternoon.

Mr. CHEVRIER: I will not be here at the early part of the afternoon's meeting.

Mr. GORDON: In respect of the figure on the freight rate increase I would have to get information on that. I can answer the other points. The conciliation board has completed its hearings. Both the C.P.R. and ourselves have filed evidence before the conciliation board showing that no increase in wages is justified. We have attempted to show that the Durable Goods Index which the unions are putting forward as a yardstick is not appropriate to the railway industry.

We have presented to the board detailed comparisons of rates from all across Canada covering comparable types of work performed on the railways and have proven to our satisfaction—whether or not to theirs I do not know—that the railway worker is not underpaid and therefore no wage increase is justified.

The evidence is in, as I say, and the unions have stated their opposition to the company's point of view. The board is preparing its report now. I have no definite knowledge as to when it will come out, but I would suspect that it will be within the course of the next two or three weeks when the conciliation board is under the chairmanship of Mr. Justice Thompson. Until that report comes out I do not know what the next step may be.

Mr. CHEVRIER: Could I ask you to give us that a step further in reference to the other group; I am referring to the firemen and engine-men.

Mr. GORDON: It needs a little more explanation in respect of the background. We have to go back to the period prior to the present agreement with the firemen which expired on March 31 of this year. When that contract was being discussed over two years ago, we took the stand that we wished to discuss the need for firemen on diesel operations of any kind. In the ensuing discussion, we realized that the basic issue affected not only firemen but all members of the crew on a diesel powered train, and we did not feel that we had sufficient data to press that point of view before a conciliation board.

So in 1956 we agreed to extensions of our wage agreements and said that we were going to conduct a very detailed review of our train operations with respect to all members of the train crew. That was done.

The C.P.R., on the other hand, at that point decided they would press the issue concerning use of firemen in yard and freight service. That issue is what gave rise to the Kellock commission, so called.

We proceeded with our independent survey for our own purposes and C.P.R. carried the issues to conciliation and still later to the Kellock commission.

When our agreement expired on March 31 this year we, in accordance with the terms of the agreement, again served notice that we proposed to ask for an amendment of the wage agreement leaving to management discretion as to when firemen should be used. The union would not negotiate on that point at all. The question now is before a board of conciliation under the chairmanship of Mr. Justice Montpetit and he is examining the merits of our case, not only in respect to a wage increase but also in respect to the matter of using firemen at the discretion of management.

Our case in that respect is different from the case of the C.P.R. because we allege we should have, basically, the discretion as to when the men should be used in any particular job, be it firemen or any other classification. That is where the matter stands. The hearings have been adjourned until August 11. We do not know our position, therefore, until we have the findings of that board.

Mr. FISHER: This afternoon I would like to bring up some question in respect of points such as Sioux Lookout, Armstrong, Nakina, Hornepayne, Foleyet and Port Arthur.

Mr. GORDON: Affecting what?

Mr. FISHER: If you are successful in obtaining what you want as far as the fireman is concerned, how it will affect the people at those points.

The CHAIRMAN: You mean in respect of unemployment of people in those districts?

Mr. FISHER: Yes. In terms of straight employment this is the most live question which we have in those areas.

Mr. GORDON: I would like to talk this over during the lunch hour with Mr. Dingle. Divisional points, of course, are being affected by the dieselization program. There will be a major re-orientation required as we proceed to complete our dieselization program.

On the particular point mentioned here, if management has the discretion as to when to use men on a train, be it firemen or other crew members, that is subject, of course, to the safety consideration which is under the jurisdiction of the Board of Transport Commissioners. If we have the power to reduce the number of men on a train, we will do that wherever it appears to be required at that time. I do not know how it affects divisional points. It depends on where the men live and what their run might be in this particular area.

Mr. FISHER: I do not know whether or not you can anticipate the seriousness of this question from the point of view of a politician, but it is a very live one. The sharpest question which is being asked at a Division point is, "Where are we going?" and the railway does not tell us. I think, in view of the whole trend, that the community deserves some kind of a foreshadowing of their future because they depend entirely on the railway. I hoped that you would be able to give us some information.

Mr. GORDON: Perhaps this is indiscreet; but would those communities either listen or believe me if I do tell them?

Mr. FISHER: I would hope they would.

Mr. GORDON: It has not been my experience.

Mr. FISHER: You spoke earlier about the question of human relations. This is one of the toughest. I have been associated since birth with the C.N.R. I have a great number of very close relatives who are working on the railway, and my mother is a railway pensioner. I think I understand their points of

view. I think it is about time we had a pretty forthright statement as to what will happen to these communities in terms of employment.

Mr. GORDON: I fully agree with you. I think it is our duty to let that be known as soon as we can. We cannot get away from the fact that we are in the middle of tremendous technological change in railways and unless the railways do adopt changes which will enable them to keep competitive or improve their competitive position, the over-all result on railway labour will be much more serious than if we do not.

This dieselization program has some very unfortunate effects, I grant. No one is more concerned about this than I and the rest of management. We have tried to explain it. Never at any point have we suddenly changed the orientation of our labour force without sending our supervisors and others to explain to the individuals what they can expect and why we are doing it. The employees affected have privileges, under the seniority provisions and under transfer provisions, but we get to the point where it means they must go elsewhere. I quite recognize how difficult it is for a person to have to tear up his roots, but it cannot be avoided. You have to adapt yourself to change.

Mr. FISHER: There are such things as real estate values. No one knows where they stand at the present time. Quite frankly the substandard communities in my constituency are the Canadian National divisional points.

The CHAIRMAN: Gentlemen, it is 12:30. We will adjourn, and it being agreeable, we will meet here immediately following the orders of the day if and when that should be. This evening, if you are satisfied, we will meet at eight o'clock.

AFTERNOON SESSION

MONDAY, July 14, 1958

5:30 p.m.

The CHAIRMAN: Order gentlemen, I see a quorum. Shall we proceed? I think Mr. Gordon is prepared to deal with the questions that were outstanding.

Mr. GORDON: During the lunch hour I managed to get the answers to most of the questions which were left pending.

There was a question about some pulp wood movement. I have not been able to identify this but perhaps if Mr. Fisher had a talk with one of my assistants he would be satisfied.

Mr. FISHER: Yes.

Mr. GORDON: In regard to your question, Mr. Carter, as to whether railway rates apply to coastal shipping—that is ships plying between one port and another—the answer is no, water rates apply. These water rates have remained practically the same as they were at Confederation.

In regard to cement rates, there is no incentive rate regarding cement. We have met competitive rates represented by cement being shipped from the United Kingdom into St. John's. Last March we instituted reduced rates in order to meet that competition.

There was a question asked in connection with the bus and truck service between Port Arthur and Longlac. The answer to that question is that we ceased rail service there following application to the Board of Transport Commissioners and substituted a bus-truck service. Our experience has shown that we can definitely provide service for all the traffic offering in that com-

munity and are saving about \$270,000 to \$280,000 a year as a result of this change. It is not our intention to reestablish any form of railiner or rail service in that regard.

I think those answers pretty well cover the outstanding points except in regard to the general question having to do with enlightening communities of our intentions. That is a broad question. I find it difficult to give a comprehensive answer because it breaks down into so many facets.

The fact of the matter, however, is that at any point or division where we have in mind a dislocation respecting the working force, we communicate and talk to the representatives of the unions and give notice as far ahead as we can, to let them know what our intentions are in a particular community. That varies depending on the particular circumstances, but we do communicate with the union representatives of the various trades.

The reason I say it breaks down into different facets is because there are a number of different union agreements affecting the various trades and crafts and this complicates the problem. We do give advance notice as far ahead as we are able to plan on an intelligent basis.

Mr. FISHER: You do not make a particular point of explaining to the community as a whole; for example to the town council, do you?

Mr. GORDON: The answer to that question is yes, and no. We do make a point of doing that when our plans are sufficiently far advanced that we can see the situation clearly ourselves. The difficulty Mr. Fisher is that we are in the middle of a very complex period of transition from steam locomotives to diesel power. As soon as we have our dieselization program sufficiently far advanced that we can see what the impact is going to be on a community, then we do talk to the councils and employees in that community.

A case in point, for instance, is the City of Stratford. The city of Stratford has been fully informed of the situation there. We have met with the City Council, we have met with all the community representatives, we have communicated with each individual employee and have set up a counselling service for the purpose of personally advising each one of these men as to what his rights are in regard to seniority arrangements, transfer procedures, pension arrangements and that sort of thing. Whenever we have crystallized plans we are able to do that.

Some of the points you are interested in are in the 'bridge' area, and we must get closer to the completion of our dieselization arrangements before we ourselves can decide what points we will be able to run through on.

One of the efficiencies in dieselization, among other things, is that much longer runs are possible without maintenance service on the diesel power. As soon as we get far enough ahead in the planning in that regard, then we will certainly inform the communities of the situation.

I will give you another example; the transfer of our shop between Cochrane and Senneterre. More than a year ago we talked to the city council of Cochrane. As I suggested this morning, we have had to work very hard getting them to understand that these things are inevitable if the railroad industry is going to survive.

I can assure you just as soon as we are able to give some real practical advice we will get in touch with the communities and take them into our confidence.

There is another point which I rather hesitate to mention. Experience has shown that if we begin to announce our intentions of changes in any community before we are sure of them ourselves, we are asking for resistance; We just invite resistance. It makes our planning operations much more difficult. Therefore we tend to wait until we are absolutely sure so that we do

not initiate a lot of unnecessary representations and agitation. It is only when we know definitely what must be done that we, as I say, work through our union representatives, and so on, to give the necessary advice.

Mr. FISHER: I do not want to put this on the record as a positive statement of fact, but one could be very disturbed by the general morale along the north line, and I am thinking of communities such as Hornepayne. There seems to be a lot of doubt about the situation there. I would like your assurance that you will let those communities know where they stand at the earliest possible moment.

Mr. GORDON: We are very conscious of this fact. These communities of which you speak are not only rather isolated, they are very dependent upon railroad operations. We have a very sympathetic understanding of this situation and I can assure you that we will try to keep them informed of the situation as soon as is practical and to establish any transitional changes on as considerate a basis as possible.

Mr. FISHER: I might suggest that the president himself could go to some of these places.

Mr. GORDON: There is nothing I would like to do better but I have never been able to figure out how to be 60 places at one time. I have been through those communities you mention from time to time, but to spend the time necessary, going to all of them, is just beyond me. But I shall very much keep in mind what you say and to the major possible extent I shall try to make visits there, or to have senior officials make visits in those territories.

Mr. CARTER: May I ask for a clarification arising out of an answer which Mr. Gordon gave to me? We have coastal boats going around my riding which carry freight also to the mainland.

If they take on board freight on the mainland, then that freight is not taken out of the ship. It goes from the mainland to a point in Newfoundland.

Mr. GORDON: That would be at the railway rate.

Mr. CARTER: But if it is unloaded at Port aux Basques and put on again, then it would carry a water rate?

Mr. GORDON: That is right.

Mr. CARTER: Do these rail rates apply on the ferry?

Mr. GORDON: Yes.

Mr. CARTER: Do they apply to motor cars?

Mr. GORDON: I can see no reason why they would not. You are talking about the transportation of automobiles?

Mr. CARTER: Yes. Do you have special rates for them?

Mr. GORDON: They would get the same rate as if they were being transported on the railway.

Mr. CARTER: It is a rail rate?

Mr. GORDON: Even though we are required to give straight water transportation, it is the same as if it were a railway. That was the theory under which it was set up. In other words, you may remember that shortly after confederation our rate was challenged.

Mr. CARTER: Yes.

Mr. GORDON: At that time the principle was established of a bridge between North Sydney and Port aux Basques which, for rate-making purposes would be treated as if there were a railway running thereon. It is freight you are talking about?

Mr. CARTER: I understand if a person ships a car from Port aux Basques to North Sydney, he must pay the ordinary freight rates on that car?

Mr. GORDON: That is right.

Mr. CARTER: But what I am not sure about is this: is the rate for the 90 miles the same as if it were for 90 miles somewhere else on the railway line?

Mr. GORDON: If it is freight, yes.

Mr. CARTER: They can only ship it by freight. There is no other way of doing it.

Mr. GORDON: I am talking about freight, such as a new motor car shipped as freight.

Mr. CARTER: No. I am talking about a passenger's car.

Mr. GORDON: Then there is a regular tariff on the ferry for that car.

Mr. CARTER: Oh, then it is not a freight rate?

Mr. GORDON: Well, it is on the freight basis; there is a tariff and it is on the freight basis. If you drove your car up to the station at Montreal, we would not take it on board a passenger train going to Toronto. However when you drive your car to Port aux Basques, you will be able to drive it on a ferry which will take it to North Sydney, and there will be a rate applicable for that ferry service from that point.

The CHAIRMAN: Shall we now proceed to paragraph 28, "Wages", and paragraph 29, "Wage increases and other benefits applicable to 1957"?

Are there any comments on these paragraphs?

Mr. CARTER: Mr. Chairman, pensioners who are retired without having made a contribution towards the pension I believe, get a flat rate pension?

Mr. GORDON: If they qualify under the terms of the pension fund they get a basic pension, as we call it, of \$25 per month, without having contributed to the pension fund.

The CHAIRMAN: I think this is further clarified with other items, Mr. Carter.

Mr. CARTER: I did not want to bring this up here. But there are one or two points in connection with it I want to get clarified. Perhaps at the time of the budget item would be a better opportunity.

Mr. GORDON: Well, this is just as good here as any place.

Mr. CARTER: Well, this is what I want to get at. The pension rate for a regular Canadian National Railways pensioner who made no contribution, as you said, was \$25 a month. Now, when confederation took place a number of Newfoundlanders came under the non-contributory scheme as part of their service was with the Newfoundland railway and part with the Canadian National Railways, and I understand that instead of \$25 they get \$30. There is a figure of \$30 a month comes in there somewhere and I was wondering what would be the basis for that?

Mr. GORDON: That was an agreement that was worked out between the two governments at the time of confederation. This is probably one of the most complicated things in the railway and that is going some, I can tell you.

I believe what you are talking about in this instance concerns a Newfoundland employee who was a non-contributor to the pension plan. This is what it says:

A Newfoundland employee who has not contributed under a pension fund shall receive such amount additional on a pension payable him under the pension plan as may be required to augment such pension to the equivalent of \$15 each year, but not exceeding twenty years of allowable service calculated in accordance with the provisions of the Newfoundland act of March 31, 1949.

Then comes a number of commitments. At the time of confederation the Newfoundland people had a certain type of pension plan and certain concessions were given to railway employers in order to ensure that employees of the Newfoundland railways would not be any worse off in regard to any pension coming to them than they would have been had no amalgamation taken place.

At the same time it was not considered fair that the Canadian National Railways should have to provide for those particular employees a higher allowance than dictated by the amount of service with us, because if we had done that we would have had all sorts of complaints across Canada. So it became a fact that it would be a separate scheme, not affecting the pension fund as such but coming under this Newfoundland board.

Mr. CARTER: But somewhere it is stated there was a basic rate of \$30 a month. I have never quite understood why that rate should have been \$30.

Mr. GORDON: Mr. Armstrong says he knows.

Mr. ARMSTRONG: I think, Mr. Carter, you are speaking of the Intercolonial Railway, which had a minimum pension rate of \$30. This was established back in 1923 or 1924.

Mr. CARTER: In Newfoundland?

Mr. ARMSTRONG: No, it does not apply to Newfoundland. I do not know the minimum basic for Newfoundland.

Mr. GORDON: It is a varying amount.

Mr. CARTER: Well, now we have two figures. You had \$25 and now Mr. Armstrong is saying in 1923 we had a rate of \$30.

Mr. ARMSTRONG: With respect to the Intercolonial Railway.

Mr. CARTER: But in some respects that affects Newfoundland employees. The reason I am asking this question is because I have a constituent who was retired and who had Newfoundland railway service and so much Canadian National Railways service and the rate he gets is \$32, part paid by the Canadian National Railways at \$30 and part paid by Newfoundland, and I cannot understand why.

The CHAIRMAN: We must try to keep our questions as relevant to the discussion as we can. If we have a lot of fine details it will take a lot of the committee's time.

Mr. GORDON: I would say, Mr. Chairman, that this is one of those cases which is so complicated in respect of what happened in Newfoundland that they all have to be treated individually and if Mr. Carter would care to bring the individual case to my attention I will analyse the thing for him and show him how it operates.

The CHAIRMAN: I think it would be better, Mr. Carter, because it takes a lot of the time of the committee if we go into details.

Mr. FISHER: Have you been able to estimate the figure of those employees who are now in service who have willingly switched to the contributory part of the pension scheme?

The CHAIRMAN: This is by the revised health and welfare plan?

Mr. GORDON: We are talking of the revised pension plan, which is part 2. Well now, the part 2 contributors as at the end of 1956 were 35,160, and as of 1957, 35,630—practically the same.

Mr. FISHER: Practically the same?

Mr. GORDON: Yes.

Mr. FISHER: Can you analyze why they are so loath to step in and take advantage of this very generous offer?

Mr. GORDON: Yes, I think I can answer that. It is due to the fact that at an early age few men really are able to look far enough and realize that after they are married and settled down it would be nice to have the protection. Combined with this is the basic weakness in our fund,—that it is a voluntary fund.

We are convinced that that is wrong. We are engaged now in some very heavy analysis with the thought that we are going to make the plan compulsory for all new employees engaged from a certain date forward. This will make it a contributory fund the same as the C.P.R. and others.

Mr. FISHER: Willy-nilly?

Mr. GORDON: Willy-nilly for new employees. In other words, we will say that as of a certain date, let us take January 1st next year, we will say that any employee joining the railway must automatically become a contributor to the plan. The present voluntary arrangement is not fair because what happens is that at the time when a man has been in the service perhaps eight or ten years and gets to the point where he should be contributing he is married and has a family, and this generally coincides with the time when his own financial obligations are at the heaviest. In these circumstances the tendency is to say: "Well, I will do it next year", and he never gets around to doing it.

We think the voluntary approach is fundamentally wrong.

Mr. FISHER: If you have a compulsory pensions scheme, what figure will you try to make him compulsorily contribute towards the plan?

Mr. GORDON: Under our provisions in the pension fund an employee contributes five per cent of his salary and on that basis he receives benefits which are outlined in the formula of the pension fund and the railway underwrites the balance of that cost whatever it may be. That is the revised pension fund.

The former plan provided no benefits except on this basis the fund said that if a contributor agreed to pay five per cent of his salary (or up to ten per cent if he chose), the company would match the five per cent. When he came to retire it would amount to a good deal of money, accumulated at interest, and at this time that lump sum and interest would be invested in an annuity which would be established under regular actuarial tables applying at that time. Shortly after I came into the railway, in fact the very first year I was there, that whole pension fund was revised to bring it up to date in line with modern thinking. In essence, we think one of the basic reasons for a pension is to look after a man's survivors. We therefore revised it and made the Part 2 which says that if a man comes under part 2 then he cannot withdraw; once he made his decision to come in it is compulsory. He pays 5 per cent of his salary and receives the benefits which are spelled out. It provides for 50 per cent to his widow in the case of death, subject to some minor adjustments which could happen, and an allowance for children up to the age of eighteen.

The cost to the company can fluctuate, depending on how our investments for the pension fund vary. The residual amount necessary to underwrite the benefits is an obligation on the company. We hope to persuade everybody to get into the revised fund and we hope to make it compulsory, if we can, for new employees.

Mr. FISHER: Will you have to write this into the union agreements.

Mr. GORDON: No. The pension fund is no part of our wage agreement at all. In respect of these pension suggestions we always have a labour representative on the committee working on it and therefore we carry the labour forces' opinions along with us before we announce anything concerning a revision.

Mr. FISHER: What other pensions—

Mr. GORDON: May I add something to what I have said. There will be a number of situations which will have to be considered. We will have to consider giving other types of employees an opportunity to come in. I do not want you to think it is only for new employees. The whole matter will have to be comprehensively covered.

Mr. FISHER: You had a problem in respect of the welfare plan with the other insurance companies, the Blue Cross and the Sun Life in relation to prior pensions and in relation to double coverage.

Mr. GORDON: Our problem was this; in the Canadian National Railways there were a number of other provident and benefit funds of various types. The main ones were the Grand Trunk Railway Insurance and Provident Fund, the Canadian Railway Employees' Relief Association, Railway Employees' Welfare Association Limited in Newfoundland, and a number of minor ones which were sort of voluntary benefit associations.

The problem was that all these companies had coverage issued, and when we negotiated with the unions and the non-operating trades a comprehensive coverage in the form of hospital, medical and surgical benefits, plus a life insurance benefit and a weekly indemnity covering sickness, duplicate coverage turned up. We, therefore, had to go to these old, established benefit organizations and talk to them on the basis of eliminating their coverage. It was improvident for the insurance companies because they are not interested in duplicate coverage. We worked it out.

The Grand Trunk Railway Insurance and Provident Fund was on a financial basis where it was at the break even point and we have taken over its assets and liabilities. We are looking after its outstanding life insurance policies which it had. In the case of the Canadian Railway Employees' Relief Association, we have been able to eliminate the hospital, medical and surgical coverage, and the payroll deductions are no longer made for that. However, that association wants to continue its insurance benefits and we are making deductions from the payroll in connection with the insurance premiums. Because in that case it is life insurance coverage and it is not duplicate coverage. It is merely an extended and larger coverage.

Now there is one final point. I think the one in which you are mostly interested is the Railway Employees Welfare Association. That is a different breed of cat, again, because they cover more than the Canadian National Railways. They have issued policies of different types covering death benefits, widows pensions, sick benefits and all sorts of things all across Canada including T.C.A., C.P.R., Ontario Northland and others. So it is not solely a C.N.R. company, and we have never been involved in the management of it at all. It has always been an arms length proposition. We are now more or less in negotiation with them as to how best to work it out. We have successfully concluded in connection with the medical, surgical and hospitalization benefits, but there is no duplicate coverage in that and we are not deducting on that basis. We still have some outstanding liabilities for which we are at the moment deducting from the payroll at the request of our employees.

Mr. FISHER: I understand from talking with railroaders in the last few days that that Newfoundland group is still proselytizing and still extending its efforts.

Mr. GORDON: It could be. There is no way we could stop it. Provided they have a license to do business, and while it may be inadvisable, there is no way for us to stop them.

The CHAIRMAN: Are there any further comments on wages?

Mr. CARTER: I believe Mr. Gordon was going to get some figures for Mr. Chevrier on the impact of these wage demands.

Mr. GORDON: I was not clear on what Mr. Chevrier had in mind. We stated in our report here—

The CHAIRMAN: It is pretty well set out in the report.

Mr. GORDON: We stated that \$113 million would be the cost of implementing these demands. We regard that as not being a practical proposition. If we are going to take the plain arithmetical results of it, I can tell you that a one per cent increase in freight rates would yield us about \$2 million in revenue. So if we are to attempt to recover \$113 million additional expense, even allowing for the fact that it would not all come from freight rates—then you are talking in terms of a 50 per cent increase in freight rates—that is quite impractical because it would be self-defeating, obviously, if you demanded anything of that sort. So it is not a practical proposition. That is my point. I therefore would not forecast what freight rate adjustment might be required until negotiations with labour have been finalized.

The CHAIRMAN: You see that in paragraphs 33 and 34 under wages, that discussions were held with the representatives of 15 unions during November 1957 and ended on December 2 with a union request for conciliation services.

Mr. SMITH (*Calgary South*): On discussions on freight rates, does the Canadian National Railways negotiate or initiate any of these themselves? I have heard it said that invariably they find themselves saying "Me too" to Canadian Pacific Railway Briefs.

Mr. GORDON: No. It is usually a joint application entered into by both railways.

Mr. SMITH (*Calgary South*): You have your own counsel?

Mr. GORDON: Yes. As a matter of fact the approach is, that presentation is made by the Railway Association of Canada which represents all 14 railways in Canada. The association represents them all and the presentation is usually made by the C. P. R., supported and assisted by our company.

The CHAIRMAN: Are there any further questions with reference to the negotiations carried on and now outstanding?

Mr. FISHER: You gave us information this morning on the diesel matter. You are serving notice to the unions that the company "intended to exercise its discretion in the need for assignment of firemen to freight and yard diesels." Are you all set up in an operating way to make a switch right now?

Mr. GORDON: We can make it very quickly if we are able to work it out, yes.

Mr. SMITH (*Simcoe North*): If a man is a fireman on the C.N.R. and sees no future in being a fireman, does your contract with the union permit him, assuming he has the qualifications, to transfer and become a trainman or a brakeman?

Mr. GORDON: Again there would be the fact of the very complicated question of seniority.

Mr. SMITH (*Simcoe North*): Does he lose his seniority?

Mr. GORDON: Yes he does, if he goes into another group. His normal promotion is from fireman to engineer. But if he transfers from fireman to, let us say, trainman, he has to go to the bottom of the seniority list of the trainmen group. Mind you, it is the union's stipulation, not ours.

Mr. SMITH (*Simcoe North*): It is the union's stipulation?

Mr. GORDON: Yes.

Mr. SMITH (*Simcoe North*): Are comparisons made as to the amount of work hours required to do an operation by the C.N.R. as compared with the American railroads doing the same operation—the number of men required to do a job? Have you any yardstick?

Mr. GORDON: Yes, we have charts that will demonstrate that. I do not know if we have them here. I have a chart which would have demonstrated that very clearly, but unfortunately I have not got it with me.

The CHAIRMAN: It is six o'clock. I believe we have pretty well exhausted the wages item.

Mr. FISHER: Just on the one point, what it says here is pretty final. "The meetings terminated after the union declined to discuss the diesel issue." Is there anything more to be said?

Mr. GORDON: The point we are referring to here is where negotiations between the railway management and the unions broke off. Under the law, there are two steps to take. There is a conciliator appointed who meets the parties and tries to see if they can reach an agreement. He may make a report that there was no possibility of an agreement. Then the government appoints a conciliation board, and both parties would appear before the conciliation board and present their case. That board is sitting now. It has adjourned until August 11 but we are presenting our case before it and the unions are presenting their case. When the board brings down its ruling each side will have to decide what it is going to do. The ruling is not binding.

The CHAIRMAN: There is not much we can discuss on that while it is being considered before the commission.

Mr. FISHER: I quite agree with you. I have a number of briefs and representations with me.

The CHAIRMAN: I think we might consider the wage end is pretty well concluded.

Mr. GORDON: Under this heading I could not make any further reference because the case is before the court.

The CHAIRMAN: Gentlemen, there is not much further we can do, so if you are satisfied, we will adjourn.

We will sit tonight from 8 till 10 o'clock and again tomorrow at 9.30 a.m. 3.30 p.m. and 8 p.m.

Mr. FISHER: Have you any word when the T.C.A. flight is going to take place?

The CHAIRMAN: As soon as we can conclude this, we will proceed with T.C.A.

EVENING SESSION

MONDAY, July 14, 1958

8:00 P.M.

The CHAIRMAN: Gentlemen, I see a quorum.

We are dealing with the item under the heading taxes, rents and fixed charges.

Taxes paid by the railway amounted to \$16.6 million, an increase of \$1.8 million over 1956.

Rents paid for equipment and facilities fell from nearly \$10 million to \$4.1 million, due to a reduction in the use of foreign line cars.

Fixed charges rose from \$31.8 million in 1956 to \$37 million. The increase of \$5.2 million was due entirely to higher interest expense, of which

\$4 million is attributable to new borrowings of \$197.1 million during 1957; the remainder is chiefly a reflection of the impact of interest for the full year on 1956 borrowings. A small saving in interest was obtained through the refunding of \$73.3 million of securities held by the public.

Are there any comments you wish to make in regard to those items? They are fixed items and we cannot change them.

Under the heading other income: other income after deductions, as detailed on page 29, dropped 14.6 per cent to \$9.4 million. The decrease was partially attributable to lower profits from land sales and to the inability of the Northern Alberta Railways to pay interest and dividends to the parent companies.

Are there any comments you wish to make on that item?

Mr. SMITH (*Simcoe North*): In the matter of land sales, Mr. Gordon, I realize that certain sales are made for the purpose of increasing the business of the railway. In cases where the increase in business of the railway is not a factor, is there any fixed policy in regard to selling land such as taking bids for tender?

Mr. GORDON: No, it does not always work that way because the sale of land is a little different from what you might call the normal tender process. Very often we find that some group or some individual has worked out a plan of his own in regard to the use of land and he will come to us with a proposal. The proposal may be his own idea in respect of how he may best use the land. Our analysis in that regard is based on whether or not the land in question is likely to be needed for railway purposes.

If our operations officers are satisfied that we are not likely to need it for railway purposes then we make the land available for sale and we check the proposal against what we might call the market value of previous sales of land in that particular area.

The CHAIRMAN: You will observe the chart of the revenue dollar which gives a good idea of the situation. As the president told us before the 3.5 cents of the dollar represents all other revenue and the payrolls amount to 56.8 per cent. 5.4 cents represents pensions and health and welfare together amounting to over 60 per cent. This chart gives a good picture of the situation.

Mr. BROOME: Where do you find the figure of \$9.4 million on page 29?

The CHAIRMAN: On page 13 at the top under the heading, "other income".

Mr. BROOME: It says the details appear on page 29.

The CHAIRMAN: It says, "other income after deductions, as detailed on page 29—"

Mr. BROOME: I am looking now at page 29.

Mr. GORDON: It is the total of the other income which you will see on that table as \$10,055,000 less the total deductions from income being \$607,000 shown below. It is the net figure of \$9.4 million.

Mr. BROOME: To arrive at the net income available for fixed charges you have deducted \$607,000 from \$10,055,000?

Mr. GORDON: To arrive at the net other income we deduct the \$607,000 from the \$10,055,000 which gives the figure of \$9.4 million. This is the net figure we are quoting on page 13.

Mr. BROOME: Just below that item it says "net income available for fixed charges \$7,399,139". Should that be the figure "9" in there instead of "7"? Is that a misprint?

Mr. GORDON: No, this is not a misprint. We could not allow that! The figure of \$9.4 million is the net of \$607,000 deducted from \$10,055,000. The

figure representing net income available for fixed charges, \$7,399,000, is the \$9.4 million less the \$2.048 million representing net railway operating income which is a deficit figure.

Mr. BROOME: That is a deficit figure?

Mr. GORDON: That is right.

The CHAIRMAN: We can now deal with the paragraph headed, hotel operations, paragraph 40.

Mr. SMITH (*Calgary South*): Mr. Chairman, I wonder if Mr. Gordon would give us some indication as to future anticipated expenditure for new accommodation, or new hotels, and for my own edification will he tell us if he is going to, in regard to the Chateau Laurier, before it gives in completely to the termites, spend some money bringing it up to date? It seems to me, sir, that of the C.N.R. hotels—we have many good C.N.R. hotels—this is the least attractive although it should be one of the better hotels.

Mr. GORDON: That is extraordinary, Mr. Chairman. Just the other day I had the pleasure of reading a letter presented by a world-wide organization which certified that the Chateau Laurier was one of the finest hotels in the world.

Mr. SMITH (*Calgary South*): I am not speaking of service, Mr. Gordon, I am speaking of the facilities and accommodation that are available and which, I think, are very outdated.

Mr. GORDON: What type of accommodation do you have in mind?

Mr. SMITH (*Calgary South*): I am speaking of almost all the rooms with the exception of a few which you have modified. Is it not true that it is some time since a considerable amount of money has been spent on this hotel?

Mr. GORDON: That is certainly not a true statement. Certainly in regard to the old wing, which was in bad shape—

Mr. SMITH (*Calgary South*): I have seen it.

Mr. GORDON: We have just finished a major remodelling project of the old wing, about six months ago. Previously there were no bathrooms or normal facilities in 128 rooms but we have spent almost one-half a million dollars on that renovation.

Mr. SMITH (*Calgary South*): My friends must occupy the cheaper rooms, Mr. Gordon, because that is all I have seen.

Mr. GORDON: What do your friends pay for, the cheaper rooms or the better ones?

Mr. SMITH (*Calgary South*): I thought the accommodation was sub-standard throughout the hotel.

Mr. GORDON: I am very sorry that you think that but I believe you could find quite a difference of opinion in that regard.

Mr. BROOME: In regard to the Queen Elizabeth hotel I understand that most of the design and engineering work, also architectural work, was done in New York city, is that true?

Mr. GORDON: That statement is absolutely wrong. The chief architect of the Canadian National Railways is the architect responsible for the building of the Queen Elizabeth hotel.

Mr. BROOME: That is quite true. His name is on the top of the building but that does not mean anything.

Mr. GORDON: Oh, yes, it does, I beg your pardon. If you asked the chief architect if it meant anything he would tell you that it means hard work—enough probably to kill himself in the process.

Mr. BROOME: Do you farm out the detailed engineering work?

Mr. GORDON: Certainly not. What happened in regard to the Queen Elizabeth hotel was that the concept of the hotel was in the control of the architectural department of the Canadian National Railways. In the early stages they called in, as consultants, the firm of Holabird & Root of the United States for the simple reason that we had not built a hotel of that size in Canada for 20 or 30 years. We received their advice in that regard but the actual architectural details were entirely the responsibility of the chief architect of the Canadian National Railways.

In regard to the engineering side of the question, this was completely Canadian talent.

Mr. BROOME: Are figures available as to the amount of money spent for architectural and engineering fees paid to United States firms?

Mr. GORDON: Yes, we could get those figures for you. I do not know if I have them readily available. It is a small amount.

Mr. BROOME: Could you tell us also why the management of the hotel was given to the Hilton people?

Mr. GORDON: I dealt with that in more detail two years ago when we first made that contract. I have no objection, however, to summarizing it for you now. I hope you will bear in mind this is a summary only.

The history of that situation is that when we decided to go ahead with the construction of the hotel, which we did entirely on our own responsibility, we learned that the Hilton organization was reviewing the city of Montreal with the intention of locating there. These people came to see me after we had announced our decision. We had a discussion as to the market, so to speak, of hotel accommodation in the city of Montreal. At that time it became clear we could join forces in the sense that if we accepted Hilton management we would be sure to obtain contact with this large world-wide organization.

You must keep in mind—I am not going to look at my previous statement now, because I could read it and give you what I said before—but I shall speak entirely off the cuff.

You must keep in mind that the success or otherwise of the Queen Elizabeth is based entirely on the fact that it is built for the purpose of handling large conventions.

Let me put it this way, it is a mass production affair in terms of hotel accommodation. It is intended to bring large conventions of a size which we have never been able to handle in Canada, and to bring them in with the attraction of facilities particularly geared for large sized conventions.

It became very obvious to us that with that project in mind, in order to attract these large conventions we would have to break into the market in the United States. We discovered that practically all conventions of large size are almost a monopoly of three hotel chains in the United States.

If we were to attract that type of convention we would have had to establish solicitation offices throughout all the major cities in the United States which would have added considerably to our overhead. We realized that by forming an association with the Hilton organization we would be given an opportunity to become one of their chain, which is a world wide chain of high class hotels, and that it would be to their benefit as well as to ours.

Furthermore, as we went into the details were were able to work out with them a most satisfactory operating agreement whereby they would manage the hotel for our account.

It is a Canadian National hotel, owned entirely by the Canadian National, but managed and operated by the Hilton organization; and the consequence is that we have full access to all the business that will come into the Hilton chain through their world-wide organization.

The Hilton organization is the largest world chain of hotels anywhere, as you probably know; and we have the advantage of this contact in getting ourselves included as part of the chain for the large conventions as well as the interchange of information affecting travellers who may be coming from foreign countries to Canada, and who will be directed to our hotel by the Hilton organization.

Mr. BROOME: It is on a management-fee basis?

Mr. GORDON: That is right.

Mr. BROOME: And any losses are taken care of by the railway?

Mr. GORDON: No, absolutely no. Any losses from operating the hotel will be borne by Hilton.

It is one of the best arrangements that I have ever seen. I have made many arrangements in my life time on behalf of the government and public administrations in various capacities but there is no arrangement which has given me more pride or gratified me more than this arrangement with Hilton.

Mr. FRAZER: May I ask when you expect to be putting television into the Chateau Laurier? It is about the only hotel of its kind in the country which has not got television.

Mr. GORDON: It is a question of what the traffic will bear, and whether, if we decide to put television into the suites or the various rooms, we can increase the room rent per day.

Mr. FRAZER: Please do not do that.

Mr. GORDON: I thought you would take that attitude.

Mr. FRAZER: I have been there for nineteen years.

Mr. GORDON: I thought that would be your reaction, but remember, it is just the same with hotel operation as it is in any business organization. If the organization is going to spend capital for hotels, it should do it on the basis of getting a return for the money spent, and whether or not \$1 or 50 cents per room will pay for television if it is installed is the question.

Mr. FRAZER: Do you not think that you would get more business if you put television in?

Mr. GORDON: It is a matter of judgment, of opinion. I do not want to go into the technical aspects of it but it so happens that the Chateau Laurier hotel, particularly from the technical operation in regard to television, is a place where it is difficult to put television into the rooms because there is broadcasting going on in the hotel itself.

Do not ask me why, but there are technical difficulties, and it would be most difficult to put television into the Chateau.

I happen to have a television set in my suite. That is not because I am the president, but because that room happens to have the advantage of a chimney and they managed to run the wires down through the flue. But to put television into the ordinary rooms would create technical difficulties which would be very expensive to overcome.

Mr. SMITH (*Calgary South*): I think our chairman has one in his room.

The CHAIRMAN: No, I have not. But I wish they would build a chimney for me. I certainly pay enough to warrant one.

Mr. SMITH (*Calgary South*): May I ask the same question that I put to you on the Chateau Laurier with respect to the Jasper Park lodge? It is true that you have built a very beautiful lodge.

Mr. GORDON: Yes.

Mr. SMITH (*Calgary South*): I was there last summer and again this year. The conditions around the lodge and the cabins attract a great deal of revenue to you.

Is any consideration being given to improving those facilities, other than the lodge at Jasper?

Mr. GORDON: Our problem at Jasper is that it has a very short operating season which runs from about the middle of June through the first week of September.

If we could devise ways and means of extending the period of the work force, we could put in a lot of improvements there. That matter is being examined now.

One of the difficulties is the tradition which has been built up there to employ student help. But that student help has to return to university by the first week of September, and to get temporary help after that period creates great difficulty.

Mr. SMITH (*Calgary South*): Speaking specifically of improvements required, aside from the accommodation of this lodge, the facilities are becoming rundown.

Mr. GORDON: It becomes a question of whether we can put in the necessary expenditure and achieve a return on it. I am going to try to get out there again this fall to see what is possible. We could afford, I think, to put a good deal of capital into Jasper if we could extend the season.

Right now Jasper Park is at a premium for accommodation. We have a waiting list and we have no difficulty in selling people on the hotel for the usual period; but if we could find a way to extend it, there are a lot of things we might do.

Mr. SMITH (*Calgary South*): The second part of my question is this: are there any major capital expenditures anticipated on the hotel operations?

Mr. GORDON: That will be in our budget when we come to deal with it. I have specific items in it, but I do not recollect them offhand.

Mr. CREAGHAN: I notice in your schedule that you show nine system hotels across the country, while in this report you mention seven year-round hotels. There are a couple that are not accounted for. I wonder if you would explain what they are? Secondly, if you have nine across the country, have you any plans for a tenth one which would give you a hotel in every province?

At the present time you have nine hotels in nine different provinces. But you have none in New Brunswick. Would you consider a survey for a hotel for Moncton?

The time has come I think that if you plan a hotel in eastern Canada, some consideration should be given to your regional office.

Mr. GORDON: You have picked up a point which is expressed rather loosely when you refer to seven year-round hotels. The Vancouver hotel, which is a joint operation, is not included. Perhaps we were too precise about it, but in part it is a Canadian National hotel.

The other one is the Queen Elizabeth, which was not open in December of 1957 when this report was written. So we do have nine hotels if we include the Hotel Vancouver and the Queen Elizabeth.

In so far as New Brunswick is concerned, we have had a look at the general situation in New Brunswick, particularly with reference to Moncton, and we have not reached the conclusion that the traffic available would be sufficient to justify the kind of hotel that the Canadian National Railways is prepared to build.

Going back a few years, we disposed of the smaller hotels that we then owned, such as the ones at Port Arthur, Pictou Minaki and Brandon. We got

rid of them because we came to the conclusion that you just cannot mix the two types of business. You have either to be in the big hotel business or the small hotel business.

Mr. CREAGHAN: I was thinking of one about 360 rooms, which would be built in Moncton and which would make your system national.

Mr. GORDON: Yes, it would be something along the order of the one established in Charlottetown, but that was done twenty-five years ago. We do not see anything that would justify our building any hotel that would not be in our opinion of the standard that CNR hotels should be.

Mr. CREAGHAN: How many small hotels do you have in your system today?

Mr. GORDON: The smallest one, I think, would be the Charlottetown. The Charlottetown was built in the days when small hotels were being built. I am sure if it was a question of building it today we would not build it.

Mr. CREAGHAN: Are you making a profit at the Charlottetown?

Mr. GORDON: We are not making a profit from the Charlottetown.

Mr. BROOME: Would you table figures on profits and losses for all your hotels?

Mr. GORDON: Yes, I am always a little reluctant because it leads to invidious comparisons, but I will table it.

Mr. BROOME: I do not need it now, I will get it in the record.

(See Appendix A).

The CHAIRMAN: Any other questions on hotels?

Mr. CARTER: May I ask if there are any plans to expand the Newfoundland Hotel in the near future?

Mr. GORDON: No plans yet. We have that matter under consideration but there has been no development on it as yet. There is the question now as to what future there is going to be in the light of the fact that there may not be any more American occupation, if that is the proper term. If we can satisfy ourselves that traffic will justify our going into it we will be able to recommend expansion of the Newfoundland Hotel. We are now going ahead with the Nova Scotian. The ceremonies finished today, turning the first sod or whatever it is a bulldozer does. Anyway they started work today on the Nova Scotian. There is a possibility in connection with the Newfoundland that there has been some change in the situation that causes us to have another look at it.

Mr. CREAGHAN: Would a change in the provincial liquor laws in New Brunswick perhaps change your outlook on a new hotel?

Mr. GORDON: It could be. I would not rule it out. It has got to be regarded from the standpoint of a serious business proposition and while Moncton is the hub of the Maritimes from a railway point of view we have not been able to satisfy ourselves that the type of hotel traffic that would be required to maintain the type of hotel that we would want to build could be obtained in Moncton. What I mean by that is, I would be prepared to say that there is need and room for smaller hotels in Moncton. We do not want to build that small hotel. We have found from experience that the way we can operate most efficiently is by having large hotels. We are in the large hotel business. For instance, when I was in Prince George in British Columbia I told them the same thing and the result of our survey meant that they were able to attract some other operators who realized there was a need for a small hotel and they have gone ahead with the development. There would be room in Moncton for a private enterprise operator too, who could do the kind of things we cannot do. We have to maintain the kind of standard that Mr. Smith criticized. We cannot do the things a small hotel operator can.

The CHAIRMAN: Any other questions on hotel facilities? Now, growth and progress.

We have other things to do besides the annual report and we have a lot in the annual report so let us expedite things and keep as close to what is relevant and material as we can.

Mr. CARTER: Before we go on to the next page I ask permission to revert for just one question. I was late getting here and this item was called. I just want to ask if the tax negotiations with the town of Port aux Basques have been completed now.

Mr. GORDON: Tax negotiations?

Mr. CARTER: The tax negotiations going on in the town of Port aux Basques. I believe they have been going on for some time.

Mr. GORDON: I do not recognize the item. Tax negotiations in regard to the channel?

Mr. CARTER: No, with regard to the town and the town council. Was there some negotiation with the town council of the town of Port aux Basques?

Mr. GORDON: Sorry, it does not ring a bell at all. I will have to look it up and see what the situation is. I am sorry it escapes my memory at the moment.

The CHAIRMAN: "Growth and progress", paragraph 42.

In spite of the decline in traffic in 1957, the Canadian National continued to improve its equipment, modernize its facilities and streamline its methods and techniques.

And then the beginning of the next paragraph 43:

Progress was reflected in the opening of several important new rail lines bringing mineral and other natural resources to market.

Mr. BROOME: Mr. Chairman, in regard to dieselization, Mr. Gordon, would you say...

The CHAIRMAN: We are not to that yet, that is on the next page.

Mr. BROOME: That is not growth and progress?

Mr. GORDON: It is under the heading of dieselization. There is a special heading.

The CHAIRMAN: Let us stick to all the items as we come to them. We are now on growth and progress.

Mr. BOURBONNAIS: Mr. Chairman, it states at paragraph 62 the amount of box cars that were built in 1957, over 6,000 box cars. Would it be possible to have the provision for next year's boxcars?

The CHAIRMAN: The question is what are your plans for boxcar provision for next year.

Mr. GORDON: That will be in the capital budget when we come to it. We have our details of that in the budget.

Mr. BOURBONNAIS: Thank you.

The CHAIRMAN: Any other comment?

Mr. FISHER: Just in passing how is the line from Hillsport to Manitouwadge getting on in terms of competition with the Canadian Pacific railway for traffic out of Manitouwadge?

Mr. GORDON: It is a struggle. We are getting along as well as we expected but there is heavy competition for the traffic out of that area.

Mr. FISHER: Is it a money maker?

Mr. GORDON: We think so. It is hard to analyze these things in detail but we are quite satisfied with the nature of our investment.

Mr. BROOME: In growth and progress would a question in regard to dropping of miles of uneconomic track that have been taken down be in order, in other words, taking off lines or relinquishing lines.

Mr. GORDON: Yes, abandonments.

Mr. BROOME: Abandonments of the road bed.

Mr. GORDON: Yes.

The CHAIRMAN: What is the point there, to find out how many have been taken off?

Mr. BROOME: Just to see what progress has been made in getting rid of these losing spurs.

Mr. GORDON: I have a statement here that goes back into the years on the track miles abandoned. The record of the last 30 years shows that we have abandoned a matter of 1,269 track miles and in the period 1955 to 1957 which I presume you are especially interested in, the abandonment was 165 miles of which 155 miles were in Canada.

Mr. BROOME: Should not that program be accelerated?

Mr. GORDON: We would like to accelerate it in many cases, but when it comes to the abandonment of lines, as I said earlier today, that carries very fierce opposition, and we cannot abandon a line without an order from the Board of Transport Commissioners. We have a Hearing because anyone who has any reason, legitimate or otherwise, to object to that, has the privilege of appearing before the board and stating his objections. The abandonment of lines is one of the things we must do in many cases to cut down our deficit, but the resistance and the objections that are raised every time makes that practice very difficult indeed.

The CHAIRMAN: In the next two items you will see where they have built additional lines. They have added 73 miles of new track under item 47.

Mr. FISHER: Is it in order to ask Mr. Gordon about this projected line development in northern Alberta, up into the Northwest Territories and the position of the Canadian National Railways.

The CHAIRMAN: That is under 45.

Mr. FISHER: I would just like a very brief summary of the Canadian National Railway's position.

Mr. GORDON: Well, that breaks into two or three points. There are several branch lines in Manitoba which are under survey and as we say in paragraph 46, there is a line going in on the Sherridon subdivision to Chisel lake, Manitoba. We also have made an agreement with the International Nickel company for 31 miles of line in Sipiwesk.

Mr. FISHER: It was Alberta I was interested in. The reason I asked if the question was in order was because there was some discussion in the house with the Minister of Transport and I did not want to usurp his privilege.

Mr. HEES: If I might answer that, as I said in the house, that matter is under very careful consideration by the government at the present time and we are not in a position to give any more information on it right now.

Mr. FRASER: Do you intend to put on dayliners throughout Ontario this year?

Mr. GORDON: I answered that question earlier.

Mr. FRASER: I am interested only in respect of Ontario.

Mr. GORDON: We have 26 units in service at various points. We have 7 different points under examination. I do not want to forecast or refer to the things which we have under examination until we have made up our minds

as to whether or not we are going ahead with them. The minute we say that something is under examination we are pressured on all sides as to what should be done.

The general principle is that wherever a railiner can provide service and reduce cost we will consider its use. We have a system-wide examination under way to determine where use of these units is feasible.

Mr. FRASER: I just thought that it may bring in a little extra revenue.

Mr. GORDON: It is not so much a matter of extra revenue, but rather a matter of cutting down the cost.

Mr. MITCHELL: Are you at liberty to give me a progress report concerning the improvement of facilities at Sudbury? I think you will remember we mulled this over two years ago and again last year, and since that time I would say that the rumours have you in the field of buying a location outside of the city relative to what we were figuring out a couple of years ago. I believe you are in the progress of buying a location. I am only asking for a progress report if you wish to give one.

Mr. GORDON: We have had our passenger and freight facilities in Sudbury, as you know, under very careful examination. We have here an item to provide for the eventual construction of new passenger and freight facilities to service this area. In our 1958 capital budget there is an item covering the purchase of land at Sudbury Junction. A plan for expropriation of land has been filed but the necessary land transaction has yet to be accepted.

However, we have in the capital budget provision for the money requirement although we do not want to state specifically what our land requirements are because people have a nasty habit of raising the price when they find that someone is interested in purchasing the land.

Mr. MITCHELL: I agree with you. Let us assume, for argument's sake, regardless of where that location is that the land is acquired; I surmise that would remove the depot from where it is now to that new location.

Mr. GORDON: That is the intention.

Mr. MITCHELL: Thank you.

The CHAIRMAN: What about the roadways; the new rails that were put in?

Mr. BROOME: Will those allow you to speed up schedules at all? It doesn't look like we will get air transportation.

Mr. GORDON: Subject to what I said earlier, speed costs money.

Mr. BROOME: It does, does it?

Mr. GORDON: Yes. Faster speed among other things means you have to improve the roadbed substantially.

Mr. BROOME: I meant that because of that you might be speeding up your schedules.

Mr. GORDON: We started from scratch in the western region, in a sense, because it was very much below par in respect of what we regard as being a good roadbed. The early history of the country, particularly with reference to the Canadian Northern Railways was that the lines were simply laid on top of the prairie and there were no drainage or ditching arrangements to the extent we consider adequate. We were very much in arrears in respect of putting the western region lines on a speed basis.

I think I mentioned that we had a program which would take about six years and which would cost something under \$50 million to bring us up to standard. We are making progress on that, and as we improve the line we study the question of improving schedules even having in mind that running trains fast costs money. You do not get the same fuel consumption. It is the

same as a motorcar; if you drive it at 90 miles an hour you do not get the same number of miles to a gallon of gasoline as you do at 40 miles an hour. The same applies to railways. We have to consider the question of speed in relation to the results accomplished by it. If by cutting schedules we can be more competitive in relation to other transportation we will do it.

Mr. BROOME: In connection with these schedules are the two railway companies usually in agreement?

Mr. GORDON: Yes.

Mr. BROOME: Are you holding back the C.P.R. or are they holding you back?

Mr. GORDON: I do not want you to think for a moment that we have an agreement in the sense that we agree with each other that we will not run our trains so as to be competitive. The point is that we have an agreement to pass on to each other our spring and fall time-table changes to inform each other of the plans we have. We do tell each other what plans we have in relation to particular runs, especially where we are competitive; but we do not reduce our services, nor they theirs, in order to accommodate each other.

The CHAIRMAN: The next paragraph is 52.

"The detailed engineering stage was reached in a program for the systematic application of centralized traffic control to more than 4,000 miles of the railway's transcontinental main line."

That is necessary if we are to get more speed.

Mr. FISHER: It has been said in union circles, when C.T.C. is finally in, that there will really be no need for the fourth member of the train crew. In other words, one of the brakemen could go.

Mr. GORDON: That falls into what I said earlier today, that we have examined our train crew in relation to what is needed for the whole train. We have views on that. These views will become known in the course of our labour negotiations. The case in point which is uppermost now is the fishermen; but we are not acknowledging that the fireman is the only one who may be affected by reason of technological developments.

While I do not want to say anything to start an alarm, it is perfectly true with each one of these technological improvements that, it should produce either an increase in productivity or a labour change. These can take place in a number of ways either by reduction of labour or an increase in productivity in relation to an increase in traffic. Automatic signals basically have the safety factor in mind, first of all, as well as the improved operation of a train generally.

Certainly with C.T.C. we can run trains more efficiently and that is a part of the conditions that we must achieve to obtain the maximum results from our huge expenditure in dieselization. We are away below the standard of the CPR or the major United States railways in regard to signalling generally. We are below standard.

Mr. FISHER: How long do you think it will take in this plan which you have prepared to completely introduce centralized traffic control?

Mr. GORDON: Ten years.

Mr. DINGLE: Yes. We are working on a five-year plan now.

Mr. GORDON: We have broken this down. The problem here is that so many of these things in the past have been on a sort of hit and miss basis. There has not been any really intelligent plan in respect to how best to do it. We started some years ago—I will use the personal pronoun in this respect, —I started years ago to say, "I will not authorize any more money on signalling until I get a plan." I wanted to know where we were headed. We have spent

two years in order to find what is the best type of signalling. We now have the plan and the question of how rapidly we will implement this plan will depend on two things: First, the amount of money that we feel we can put forward in our capital budget and, second, the availability of the very highly specialized technical equipment and staff that is needed to establish these signals. We are short of skilled staff to install and we are also short of equipment itself. But we intend to go ahead as rapidly as these factors will permit.

The CHAIRMAN: Are there any further questions on signals, yards and terminals?

Mr. KENNEDY: Mr. Chairman, may I ask a question with respect to the Atlantic division. Do you know there has been a serious depletion of repair services at Truro which are now being concentrated in terminals at Halifax, Sydney and Moncton? How is that new system working out there? Have you saved enough money to warrant displacement of other senior men there?

Mr. GORDON: I would not let your comment about displacement of senior men pass without a question mark. Certainly the results of modernization of the railway in the form of signalling, dieselization and so on have been very noticeable in Truro, and it has only recently become noticeable. So it will take a little time for us to prove what we think is so. All we can say is that from all the analyses we have at present we are satisfied that our decisions will bear fruit. I do not think there is any doubt about it.

Mr. KENNEDY: It is probably a little different from some other points, being a sort of junction and terminus of the D.A.R. there.

Mr. GORDON: That has been taken fully into account. It would take quite an analysis to demonstrate just what we have in mind there. But the fact of the matter is that with diesels and with signalling we can accomplish the same thing by centralization in Moncton and rearrangement of yards, and do without the facilities that we have in Truro.

Mr. KENNEDY: I have another question regarding the auxiliary equipment which has been there from time eternal, so to speak. It has now been placed on the end of the line at Halifax, which puts it on the extremities. Why is that?

Mr. GORDON: That again gets into the question of the analysis as to why we do certain things. The auxiliary was moved from Truro to Halifax. It is considered better to have protection at both ends of the area, and particularly to have the auxiliary at Halifax in order to protect the south shore. If a crane, for instance, was located in the centre of the area at Truro, then it would also be needed at either end. And with dieselization it takes only a relatively short time to reach a wreck scene, north or west of Truro from Halifax. The location of our equipment generally, particularly the equipment having to do with wrecks, is spotted on the basis, out of our experience, where we can reach the wreck scene most quickly. We have to get there fast and that is how we arrive at where we could best place the equipment and the auxiliary that you have in mind.

Mr. KENNEDY: Of course the centralization down in the Maritimes is not very popular, especially since we have been preaching decentralization down there. That makes it quite difficult.

Mr. GORDON: I agree with you;—and bless me, I wish I could find some way where we could make these adjustments and please everybody; but I do not know how to do it. You have to recognize that change is inevitable. If we are going to keep the railway industry efficient, then that means we have to take advantage of every technological development and use it to the best advantage. If we do not do that, not only will the railway industry suffer by reason of that fact that it ceases to be competitive and loses business but, more seriously, we will not provide the Maritime provinces with the kind of transportation service that will make industry there generally efficient.

You cannot have it both ways. You have to make up your mind one way or another. Service is service; and the only thing that can give the Maritimes the maximum benefit is to give them the most efficient service we can—all things considered.

The CHAIRMAN: We are now dealing with yards and terminals. Are there any questions now on 53, 54, 55, 56 and 57, studying of freight handling and the problems at Truro, and St. John's, Newfoundland.

Mr. CARTER: Mr. Chairman, what is the present stage of negotiation between the C.N.R. and the provincial government with respect to the overpass at the terminal at Port aux Basques?

Mr. GORDON: That is an old story by now. Two or three years ago, I remember having said "That is fine, that is adjusted." I have not the details here, but I know there is no argument left. We have come to an agreement.

Mr. CARTER: An agreement has been reached?

Mr. GORDON: Yes.

Mr. CARTER: And it is up to the provincial government to start building?

Mr. GORDON: Under the terms of the agreement there is no dispute remaining between the provincial government and the C.N.R.

The CHAIRMAN: Are there any further questions on yards and terminals?

Mr. ROBICHAUD: Could Mr. Gordon tell us if the C.N.R. expects any major improvement in the passenger station at Bathurst?

Mr. GORDON: I do not know. Perhaps under my capital budget there might be something for Bathurst. May I defer all these questions, Mr. Chairman, having to do with the extension of facilities such as new stations and take them up under our capital budget?

The CHAIRMAN: I think that would expedite it, Mr. Robichaud. It is the general policy which we are dealing with now.

Mr. CHOWN: Has any official decision been made with respect to the removal of the C.N.R. shops from south Winnipeg?

Mr. GORDON: What do you mean by south Winnipeg?

Mr. CHOWN: Fort Rouge.

Mr. GORDON: We made a statement in Winnipeg the other day which evoked headlines congratulating the C.N.R. I do not know whether or not you read that.

Mr. CHOWN: It has not caught up to me yet.

Mr. GORDON: There has been a great deal of misunderstanding and distortion about our position in Winnipeg. We issued a statement there made by Mr. J. R. McMillan, vice president of the Western Region. If I may quote just part of it:

The greater Winnipeg area will continue to be the centre of our Western Region operations, including main shops, Mr. McMillan declared. He also emphasized that the C.N.R.'s plans do not contemplate transferring to other points any shop or maintenance work now being done in the Winnipeg area.

The C.N.R. vice president also stated that the diesel locomotive and car repair work was being consolidated at Transcona because of superior building structures; more up-to-date machinery and equipment; and the existence of important supporting facilities, including a central material handling midway. The facilities at Fort Rouge could not be made suitable except at excessive cost, he added.

The use of steam locomotives in the west is constantly diminishing and it is expected that complete dieselization will be effected by 1961, Mr. McMillan continued. Inasmuch as there is a good supply of serviceable steam locomotives on the region, Mr. McMillan said that only light repairs would be required to these locomotives in the interim. At the same time, with the increasing number of diesels in use in the west, it is imperative that the Transcona shops be converted to handle increased diesel repairs by early 1959. This C.N.R. shop will then become the main plant for heavy diesel repair work on the western region.

That means that our main stops and facilities will be at Transcona; and the Fort Rouge shops—what is left of them—will be devoted to passenger car servicing work in the Fort Rouge area. But it does not mean that work will be removed from the Winnipeg area.

Mr. CHOWN: Does that account for the lay-offs that have been taking place in the Fort Rouge area?

Mr. GORDON: No, I would not say so. The Winnipeg area lay-offs have in part been due to the traffic decline, and the lesser need for locomotive repair work and things of that kind. But it is difficult to be precise about that because in the midst of this transitional work that we are doing we are bound to have periods in which our requirements will fluctuate. There is an adjustment period which will make for some little difficulty; but on the over-all I would say that there would be more work available in Winnipeg than there has been in the past.

Mr. CHOWN: Do you contemplate a reasonably early re-employment of these men you laid off?

Mr. GORDON: It depends on how fast we get ahead with implementing our capital budget. You will find when we come to our capital budget that we have large expenditures for the Symington yard as well as for Transcona itself. There will be capital expenditures of that kind which will employ labour but whether it will employ the type of labour laid-off is difficult to say. We cannot give out instructions to transfer men from locomotive jobs, for instance to other types of work or other trades where there is a union agreement with seniority provision. So you will encounter the situation where you have certain types of labour being laid off while we are taking on other types.

Mr. FISHER: The city of Fort William has been anxious to get the C.N.R. line through the town re-routed and there have been some discussions in regard to this. What is the C.N.R.'s position?

Mr. GORDON: The ore handling facilities as you know come through from Steep Rock and our own facilities there are important. I have looked at that situation several times and from the railway point of view there are only two acceptable routes that have been under discussion with the city. The city of Fort William has submitted its comments on six alternative routes to the Board of Transport Commissioners. I thought the argument had been settled, but Mr. Dingle informs me it has not been completed.

Mr. DINGLE: They only recommended two.

Mr. GORDON: The matter is still under discussion with the Board of Transport looking on as a referee in case we do not arrive at an agreement. We have had a considerable discussion with the city and I am disappointed to learn that we have not reached an agreement.

Mr. GRILLS: A rumour has been circulated that the Belleville area might be contemplating some return for the shops at Belleville which long has been a divisional point of the C.N.R. Is that true?

Mr. GORDON: I would not want to comment. I do not know what the immediate situation is. We make our adjustments in staff arising out of quite a number of reasons. It is a normal happening in the railway that the numbers of its working force must rise and fall under the needs of many conditions. There are seasonal factors, traffic factors and the technological factors.

Mr. GRILLS: In the past they repaired steam locomotives in those round-houses.

Mr. GORDON: Yes. If it is a roundhouse for steam locomotives, you may just as well tell your constituents they have to accept the fact it will eventually be closed. There will be no need for roundhouses when steam locomotives disappear. We are trying to make those adjustments as considerably as possible, but they have to be made.

The CHAIRMAN: The next item is dieselization.

Paragraph 58:

Dieselization by geographic areas, the second phase of the C.N.R.'s long range program, made satisfactory progress during the year. This phase was started in 1957 on completion of the company's original five-year plan in which diesel power was applied selectively to specific runs and services.

Paragraph 59:

In the early stages of the program, the maximum utilization made possible by the selective application of diesels yielded very substantial benefits, despite the operation of repair and servicing facilities for both steam and diesel power.

Then there is paragraph 60 and paragraph 61 which says:

In 1957, diesel operations accounted for 72.9 per cent of freight gross ton miles, 81.6 per cent of yard locomotive hours and 58 per cent of passenger car miles. By year end, Canadian National was operating 1,433 diesel units on system lines.

Mr. BROOME: I notice on the summary of inventory of railway equipment there were 330 diesels placed in operation and 263 steam locomotives retired. I would have thought there would have been more steam locomotives retired than diesel electric put into operation.

Mr. GORDON: Yes, that is the difficulty of reconciling the timing of these events. Of course, all steam locomotives will eventually be retired, but it depends very largely on the phase of the traffic cycle how rapidly these steam locomotives should and might be retired. We have quite a number of steam locomotives that now are what we call in "tallow". They are sitting there by reason of the fact that our traffic has declined so quickly and so materially. If it had not been for the decline in traffic, we would have been using the steam locomotives to take up the peak load. Our program now is that we will complete full dieselization by the year 1960 or 1961. That is running at the rate of 300 diesels a year.

The CHAIRMAN: Are some steam locomotives scrapped or are some sold to other countries?

Mr. GORDON: We are at present at the most difficult stage of our transitional period between diesel and steam locomotives.

The CHAIRMAN: Eventually they are scrapped?

Mr. GORDON: Yes, there is no sale for them. We have canvassed the world, particularly in the last few months. We have been in touch with almost every country in the world and there is no sale for them.

The CHAIRMAN: There is no chance for them?

Mr. GORDON: No chance of giving them away. There is no use for steam locomotives. They are not being built and have not been built for years.

The CHAIRMAN: In other countries as well?

Mr. GORDON: No.

Mr. BROOME: Are they 100 per cent depreciated?

Mr. GORDON: No. I will give that information later.

Mr. SMITH (*Simcoe North*): Where do you buy your diesels?

Mr. GORDON: In Canada for the Canadian lines at General Motors Company, Montreal Locomotive, Canadian Locomotive & Canadian General Electric. They are the manufacturers of diesels. We call for tenders from each one of these manufacturers. In connection with the United States lines we call for tenders from United States manufacturers.

Mr. SMITH (*Simcoe North*): In regard to the Canadian diesels, are the component parts largely made in Canada?

Mr. GORDON: It varies; I do not know what the percentage is offhand. My impression is that the General Motors content of the imported parts is probably a little higher than Montreal Locomotive. What is your impression, Mr. Dingle?

Mr. DINGLE: That is my impression.

Mr. SMITH (*Simcoe North*): We have received criticism that the electrical components for General Motors are almost all made in the United States and that there is very little assembling of the electrical components. Is there anything in that story?

Mr. GORDON: That could be; we do not know. We call for tenders for a delivered diesel and we do not think it is our job to try to specify where the component parts are obtained because if it is the intention to protect an industry in Canada which might produce these components that is the business of government to decide on a tariff policy.

Mr. BROOME: On that same point, are you not allowed to use Canadian built diesel electric power units in the United States? Why would you buy these in the United States rather than buying in Canada?

Mr. GORDON: They are cheaper in the United States than here. If we were buying diesel locomotives in the United States for use on Canadian lines we would pay a duty of 22½ per cent. When we buy diesels for use in the United States we buy them cheaper delivered in the United States.

Mr. BROOME: Is the Canadian diesel locomotive the American price plus 22½ per cent?

Mr. GORDON: No, not necessarily.

Mr. BROOME: I am not talking about buying them in the States. I am talking about the Canadian manufacturer.

Mr. GORDON: We call for tenders for diesel locomotives in Canada. But if an American company wishes to tender to us, with the 22½ per cent protection they cannot quote an American price plus this 22½ per cent and be competitive with a Canadian manufactured product.

Mr. BROOME: Could the Canadian manufacturer quote a price that is competitive with the United States manufactured price in the United States?

Mr. GORDON: Yes, the Canadian price is lower than what we could get quoted by an American manufacturer plus 22½ per cent.

Mr. BROOME: I do not mean that. In other words, if you bought from a Canadian manufacturer and used it on your United States lines, you would have to pay the American duty?

Mr. GORDON: Yes, we are up against duty in that regard.

Mr. MITCHELL: I would like to ask Mr. Gordon a question if I may, Mr. Chairman. Has the C.N.R. recently accepted tenders for 100 or more diesel units which are either in the course of delivery now, or will be delivered in the near future?

Mr. GORDON: Yes, we placed orders just recently both to General Motors and to Montreal Locomotive for a total of 300—

Mr. DINGLE: I believe it was 144.

Mr. MITCHELL: I believe the figure was 144 as Mr. Dingle has just mentioned. In regard to the tenders I am speaking of, from Montreal Locomotive and General Motors of London, were they comparable in price?

Mr. GORDON: They were tenders in response to our request and we placed the orders at the best prices obtainable.

Mr. MITCHELL: These locomotives were not all purchased from the same firm?

Mr. GORDON: Oh, no.

Mr. MITCHELL: Would there be any difference in the prices of the 86 locomotives purchased from General Motors and the balance purchased from Montreal Locomotive?

Mr. GORDON: I have a breakdown.

Mr. MITCHELL: Would there be any difference in the price?

Mr. GORDON: Oh, yes, we placed the orders with the company that tendered lowest.

Mr. MITCHELL: Why would the order be split?

Mr. GORDON: Diesel locomotives consist of different kinds of units. There are passenger units, switcher units, road diesels and so forth. Each one of them consists of a different horsepower, and so forth. We called for tenders from each of these companies that I mentioned in respect of the breakdown of the particular types of diesels which we required with the result that General Motors quoted the lowest price on certain of the units and Montreal Locomotive quoted a lower price for other units. The order was placed on the basis of the lowest price.

Mr. MITCHELL: Canadian Locomotive's prices, for instances, were not competitive?

Mr. GORDON: Canadian Locomotive's prices in this case were not competitive.

Mr. LOISELLE: Mr. Chairman, I would like to ask Mr. Gordon a question, which I wrote him about in June of 1957, with regard to the steam locomotives that are still operating in Montreal in residential districts as well as other districts. The situation has become difficult on account of that fact. Could you tell me if in Montreal we can hope that these steam locomotives will disappear shortly?

Mr. GORDON: The Canadian National Railways expects to be completely dieselized in the latter part of 1960 or 1961. By that time we will have nothing but diesels operating in the system. You in the Montreal area will probably have the last of the steam locomotives on some parts of switching operations. The vice president of operations tells me that we will be fully dieselized in the Montreal area within the next two years.

Mr. LOISELLE: In that event we will still have steam locomotives operating in Montreal for two years. Is there any chance of receiving diesels there earlier than that?

Mr. GORDON: I hope you will not be too anxious. A period of two years passes very quickly.

Mr. SMITH (*Calgary South*): Could you give us some information in regard to your fuel contract? Is your fuel contract let with a particular company?

Mr. GORDON: No, again in this regard we call for tenders.

Mr. SMITH (*Calgary South*): You call for tenders?

Mr. GORDON: We call for tenders in that regard but the actual placement of the orders will vary considerably from year to year.

Mr. FISHER: I want to ask a general question. It has been the general thesis put to me by union men that in regard to the dieselization program which has resulted in great savings to the railway and great increase in productivity, in terms of labour, that this particular point has never been recognized by the railways in labour negotiations. Would you care to comment on that statement?

Mr. GORDON: Yes, I would be very glad to comment in this regard.

We have in the course of our presentations before various conciliation boards deal with that point again and again. I have no hesitation in saying that in regard to the improvement in our efficiency brought about by dieselization, labour has now received its share of that improvement.

Mr. FISHER: You feel that labour has received more than its share in that regard?

Mr. GORDON: I feel that labour has received more than its share. In other words, the capital investment has not produced for us the result that we, as management, feel we are entitled to.

Mr. FISHER: That is why you feel there will be more reduction?

Mr. GORDON: This question of productivity is another one of those easy economic terms that is commented on loosely and which is very seldom understood.

Productivity in regard to a single industry is a very dangerous term. If you talk about productivity of labour in relation to the national economy you might get some proper analysis of it. When you are speaking about the productivity of labour in regard to a single industry like the railway industry and try to apply the capital investment that has gone into machines you get into a sort of qualification which not only has to do with the capital value of the machine that is produced for the railway business, but a consideration of the value of the machine that produced the machine, and the productivity of the business that produced the machine that was sold to the railway. You get into a "ring around the rosey" sort of argument on productivity. It is not a term which you can deal with loosely.

I do feel there is a great need for a thorough economic analysis of what is true productivity in terms of labour. If we could get that analysis, plus the other indexes we have, then we might be able to talk to labour on a much more sensible basis than we are able to do now.

Mr. FISHER: When you say it would be ideal to have a study like that you are thinking in terms of a general Canadian study?

Mr. GORDON: Yes, I am thinking of a statistical study of our local situation through a department like the Dominion Bureau of Statistics.

If you look at some of the figures I have here you could very easily be misled. In regard to many of the qualifications of productivity you can average the revenue per ton mile, which is our yardstick.

Mr. Armstrong tells me that in 1957, using 1935/1939 as a basis of 100 per cent we received 163.7 per cent revenue per ton-mile. If you compare that with the hourly earnings per employee in the system, which one could call a "shallow argument," you will find that indicates an hourly earnings per man of 277 per cent. I hasten to add at once that I am not alleging, although I could, from a debating point of view, that we are paying our employees 277 per cent

of the 1935/1939 level as compared with the productivity figure of 163 per cent. I could make that argument and it would be very difficult to refute, but in fairness I say there is more to it than that. We need an analysis of what productivity really means before we would be justified in using it as an argument on labour.

All I can say on a general basis is that I do not think productivity has kept pace with the increased cost of our labour.

Mr. LOISELLE: Mr. Gordon, you have just been dealing with the labour situation. In my riding the Canadian National Railways operate the Point St. Charles' shops. There have been lay-offs or rumours of lay-offs, which have been brought to my attention over the week-end, in regard to the Point St. Charles' shops. It is also rumoured that there will be more lay-offs at the Point St. Charles' shops this fall. Is there any truth to these rumours, and if there is, are the lay-offs the result of steam locomotives being taken off service?

Mr. GORDON: No, not in regard to Point St. Charles. We have not repaired any steam locomotives there for some time. If there are lay-offs, and I am not predicting there will be, they will be due to a reduction of traffic. Whether or not our volume of traffic is such that we have to reduce the number of repairs at our Point St. Charles' shops is something we cannot foresee. However, if there is enough traffic we will be able to keep these men employed there.

Mr. LOISELLE: Do you think there is any truth to the rumour that we are going to have more lay-offs at Point St. Charles?

Mr. GORDON: I have not heard that rumour. I cannot say yes or no. This will depend on the traffic. If the traffic increases the answer will be "no" but if the traffic does not increase the answer will probably be "yes". Let us pray for more traffic.

Mr. LOISELLE: That is what I am praying for.

The CHAIRMAN: Are there any further questions in regard to dieselization?

We will deal now with the next item, rolling stock. I believe you have pretty well covered this subject in your discussion of dieselization. Paragraph 64 says:

During 1957, eighty-nine units of passenger train equipment were placed in service, consisting of fourteen self-propelled diesel railiners, five dinette cars, twenty baggage cars and fifty express refrigerator cars.

Mr. BROOME: Are they thinking of manufacturing in Canada?

Mr. GORDON: They are manufacturing in Canada in respect to Canadian lines.

Mr. BROOME: They are all manufactured here—your rolling stock?

Mr. GORDON: The Budd cars up until last year were coming in from the United States, but a year ago there was an arrangement made by Canadian Car whereby they now have the patent.

Mr. BROOME: You now buy them from Canadian Car?

Mr. GORDON: Yes, and the net result is that we pay $12\frac{1}{2}$ per cent more to have the satisfaction of having them made by Canadian Car.

Mr. BROOME: You get that $12\frac{1}{2}$ per cent back many many different ways, and it is good business.

Mr. GORDON: I hope so. I am Scotch enough to resent paying the extra price.

Mr. CARTER: Has the Canadian National Railways purchased any equipment from the New York Central?

Mr. GORDON: Yes, we purchased some used cars that were offered to us at a very advantageous price. There were 32 sleepers which became available from the New York Central by reason of the fact that they have largely abandoned their passenger services; they have made a widespread abandonment.

We were able to purchase some for \$10,000 which was such an advantageous price that we thought we ought to take our share of them as they became available.

The CHAIRMAN: Now, "Service improvements". We have discussed this before.

Mr. FISHER: I have one question on dinette cars. I do not ask it flippantly. Are the employees in connection with dinette cars—do you feel that their pay is high enough that they can live on it by itself, or do they need the tips or gratuities which are given to them to put them on an economic basis?

Mr. GORDON: When we put in the dinette cars the question of tips was carefully examined by our dining car department. We came to the conclusion that it did not work out too badly. Tips tend to be lower per unit of volume going through, but since there is a larger volume the total more or less equalizes.

I do not think you will get any dinette attendant to agree. But if you give him \$1 instead of 10 cents, you can pay your share in helping to equalize it.

Mr. FISHER: Do they need the tips, so to speak, to live?

Mr. GORDON: No, I would say that generally speaking they get a good living wage, and that the tip is simply the cream on the top.

Mr. CREAGHAN: Are you speaking of the dinette only?

Mr. GORDON: No. I think it applies to all forms of railway employment.

Mr. CREAGHAN: What about the porters themselves?

Mr. GORDON: You must remember that all these men are employed under wage agreements with the unions, and that the unions never admit that such a thing as tipping takes place. They are dealing with basic wages and they will always insist on that when negotiating for a living wage.

That is why all the wages negotiated under our contracts represent good wages for the services performed, and the tip is something extra.

Mr. CREAGHAN: Has management ever considered advertising that fact and suggesting that there be no tipping on the system?

Mr. GORDON: No. The New York Central and a couple of other American railways tried it with rather disastrous results.

Mr. CREAGHAN: I have heard of people who preferred to go by air because of the tipping feature on the trains.

Mr. GORDON: Tipping is one of the unfortunate things in railway operation, and not only in railway operation but in other things. But it is traditional. I certainly have not found any way to abolish it.

The CHAIRMAN: We are getting a little far afield of rolling stock. We had better stick to what is relevant here.

"Service improvements"; we have discussed the speed of trains in different places, and you will see in paragraph 65, 66, 67 and 68 specific places in operation about which some of you may be interested.

Mr. CARTER: I would like to say that we appreciate the improvement made in the service between Sydney and Montreal which gets us from Sydney to Montreal much quicker than was formerly the case. There is a railiner between Truro and Sydney which helps us to make the connection quicker in getting back.

I would like to ask Mr. Gordon if he would care to comment on what recommendations were made with respect to the Newfoundland service by the special service committee?

Mr. GORDON: As you know, we had a special committee of officers travelling around Newfoundland and inviting comments about our service from local interests. They came up with a very comprehensive report.

Some of the recommendations made were such that we were able to apply them ourselves, while other recommendations were such that we were not able to do so, but we passed them on to the interested department of government, pointing out that these suggestions had been made. To some extent action has been taken there.

Let me run down the list quickly. There were 26 recommendations for improving the standards of the Canadian National Railways service in the fall of 1956-57.

These consisted mainly of procedural improvements and other things, such as teletype devices to give information on cars for Newfoundland as they passed Moncton; the issuing of daily instructions for the allotment of cars, departmental duties and so forth, and a whole lot of other things which had to do with speeding up the movement of traffic, particularly that of freight.

I shall not go into them in detail, but there are 26 specific recommendations the majority of which have been put into effect, and have resulted in considerable improvement to the service.

With respect to freight cars required, that is, the actual rolling stock itself, we have recommendations which cover not only new rolling stock, but improvements to yards, extension of sidings, all with the aim of putting the Newfoundland service on a comparable basis with service on the mainland.

455 units were recommended which would cost about \$5 million. We have purchased 362 of them. We have ordered all of them, but 362 have been received to date and are now in service.

Major yard improvements in Newfoundland have gone forward to a total of \$3 million. This appears in the 1958 budget. At St. John's we will spend a total of \$1.6 million, at Corner Brook, \$1,460,000. In addition we have siding extensions at various locations to speed up our operation.

We have a whole series of other recommendations which have to do with the operation of the William Carson when it goes into service; and we have placed the wharf at North Sydney, under the jurisdiction of the Newfoundland district. I do not mind telling you that we had quite a family quarrel about that. But the net result is that we have put the wharf operation at North Sydney under the jurisdiction of the Newfoundland district, and we have placed a superintendent in charge of the wharves for both North Sydney and Port aux Basques in expectation of improving the service when the William Carson begins to operate.

Now, I have a whole list of things here which have been along the same line. The frequency of service has been improved, as I think you know, and then there was some improvement in Placentia bay where we were able to improve the service. We have doubled the service in Placentia bay to run twice weekly. Acting generally on the recommendations of the committee four new coastal ships will be built to replace three of the others now in use, leaving a general service unit as a stand-by. That recommendation has been placed before the Department of Transport and I understand has been accepted and the orders are being placed for construction of these ships.

Mr. BROOME: The Conservatives are very popular in Newfoundland.

Mr. GORDON: There are a number of other things I have not mentioned or gone into, such as the fact that there were twenty-two ports where we have arranged with the Department of Transport to install caretakers who will be

available on the arrival of ships, and eight of the twenty-two are now in force and the others being examined. There were other things in regard to the development of the delivery sheds and so forth and they have been put into force or are in process of being put into force.

One problem that we have been looking at and in which we are making very great efforts is the problem of excessive damage under the present method of handling. We are making a very intensive survey and taking action in connection with that, but it is going to take a little patience to get our staff in Newfoundland trained in the handling of goods, plus the fact that we are up against a difficulty in respect of the use of packaging. Under the present regulations Newfoundland is considered as part of Canada, and this I assume you agree with, and the shippers are entitled to use domestic packaging. Well, it is obvious that domestic packaging just will not stand up to transshipment from railway to ship and then off the ship and on board the railway, and we are getting into a lot of difficulty in that respect.

We are now making a canvass with the shippers to improve packaging and if we cannot get results we will try to have special conditions set up by the Board of Transport Commissioners in terms of packaging.

That is a general outline of the sort of thing we have done.

We have been in touch with the Department of Transport in respect of wharves, and one of the things which we say but which I do not suppose we will be allowed to do is that we should discontinue servicing a fair number of outports in the Newfoundland service, but that is an editorial comment rather than any real hope.

Mr. CARTER: Can you give any idea of the dates the new boats for the Bonaventure bay service may be put into action?

Mr. GORDON: It is a Department of Transport matter and I would prefer not to give evidence on that. Have you anything to say, Mr. Minister?

Mr. HEES: No, I cannot tell you offhand.

Mr. CARTER: The tender has been accepted, is that it?

Mr. GORDON: No, we have been asked for assistance in the matter of equipment and these ships have to be of a special type as you know and have to be able to handle ice and to accommodate themselves to the special conditions surrounding Newfoundland.

Mr. HEES: If you will drop me a note about that I will get you the information.

Mr. CARTER: Have you any idea of when the Carson is likely to have trial runs?

Mr. GORDON: We are now at the point of working out with the Department of Transport the final details in respect of harbour arrangements and various navigational requirements to make the service possible. The Canadian National Railways is ready to go ahead with the service as soon as these navigational matters have been settled and my last advice is that by the middle of August—is that what you say Mr. Dingle?

Mr. DINGLE: I think we will have that information in a matter of days and it is a question of when we start the trial runs.

Mr. GORDON: Before we put in the scheduled service these ships have to make several test runs in order to determine and decide the safe channels and other things that enter into the picture such as the navigational aids required, because all of these have to be done before we are ready for a scheduled service.

Mr. CARTER: And your trial runs will be previous to that?

Mr. GORDON: Yes. The reason I qualify it is that if the trial runs show any problems my other date is not correct because trial runs are to establish difficulties and if difficulties are encountered we might have to take a new look at it.

Mr. CARTER: Are you looking forward to the fact that Newfoundland's population is increasing now over 400,000—are you looking forward to the time when we will get a standard gauge?

Mr. GORDON: No, I am not. That question has been raised many times and it boils down to the fact of the very large costs involved. I would say, that to put in standard gauge in Newfoundland would cost a minimum of \$150 million, perhaps more.

Secondly, it would mean the relocation of the rail lines which we feel at present are in the wrong place, so it becomes a matter of policy and is not in the hands of the railway to decide.

Mr. CARTER: Your survey did not show any need for relocation of your line?

Mr. GORDON: No, it did not touch that point.

Mr. KENNEDY: I think in regard to railiner service between Sydney and Halifax, the passenger service

Mr. GORDON: I beg your pardon?

Mr. KENNEDY: The railiner service between Sydney and Halifax has provided good service for passengers generally but it seems to be a question of overcrowding there. What can you do with these things to give us accommodation?

Mr. GORDON: I am glad to hear that some of our equipment is crowded! I will only comment on that, that if the crowding reaches a point where it is objectionable we will have to increase the equipment. We can add another unit to the railiner.

Mr. KENNEDY: You could put another live unit on it?

Mr. GORDON: Yes. We will watch that and if we find that the service requires, we would supply it.

Mr. PASCOE: Speaking of the line from Saskatoon, Regina and Prince Albert, the railiner, has it been going long enough to indicate the type of result?

Mr. GORDON: Yes. The railiners have been quite successful.

Mr. PASCOE: What size of a crew do they need?

Mr. GORDON: I will let Mr. Dingle reply to the operational point, if he will.

Mr. DINGLE: Where one car is operated we use two men and in the cases of tandem service, three men.

Mr. KENNEDY: Just another point on that Sydney railiner. I understand it has been looked into and the rail authorities, I believe, report that there is not any crowding. Would you perhaps look into it again because it is reported from many parties that it is overcrowded and in fact that passengers are standing.

Mr. GORDON: Staff standing up?

Mr. KENNEDY: Passengers. It is a long trip to have to stand up.

Mr. GORDON: We will have a look at that.

The CHAIRMAN: Are there any more questions on service? If not, "Montreal terminal, master plan of the development of Montreal".

Mr. BROOME: I would like to ask the same question here I asked in regard to the Queen Elizabeth and that is in regard to the use of United States architects and engineers.

Mr. GORDON: Well, again that is not so. The history of the development of the Montreal terminal site goes back over 30 years.

Mr. BROOME: Actually I am told by members of the Engineering Institute of Canada and people who should know what they are talking about that all of this C.N.R. development around Montreal has pretty well bypassed Montreal engineering firms.

Mr. GORDON: I wish your correspondents would give me the statements on which they base the allegations and I will be very glad to look into them.

Mr. BROOME: Some of it is right there under the bottom where it went in tender, and a list of the architectural and engineering firms in there.

Mr. GORDON: Well, this is not a statement of fact, it is a newspaper report.

Mr. BROOME: If you lift that and look underneath you will find five or six New York engineering firms listed there who are the engineering firms concerned. You will notice where I have underlined all of New York.

Mr. GORDON: Yes. Well, the situation of course, with these firms is

Mr. BROOME: I think you will find the same thing applies to the Queen Elizabeth.

Mr. GORDON: Webb and Knapp established a Canadian company.

Mr. BROOME: I am quite familiar with that. My only question is on policy. I would think the Canadian National Railways would try and place as much of their work as possible in Canada.

Mr. GORDON: That has been our policy and that has been our intention. Webb and Knapp have meticulously carried out that policy. On their board of directors eleven out of sixteen are Canadian. They have floated their stock in the Canadian market in circumstances and conditions prejudicial to their own interests and Canadians have not seen fit to take it but they are willing and ready to float more of it.

Mr. BROOME: I am not talking about the financial end. They can get their money wherever they want to.

Mr. GORDON: But where they get their money has some relation to where they get the techniques.

Mr. BROOME: Then is it your statement that the necessary engineering techniques are not available in Canada?

Mr. GORDON: No, that is not so. We have no control over how Webb and Knapp (Canada), which is an independent organization, proceed to build on any site which they have leased from us. That is their own business. I am telling you that our association with them has been so close that they have assured me all through the piece that in the development there is to be maximum Canadian content. The concept of the cruciform came from Webb & Knapp of New York. Their main enterprise was the concept of that building. But the implementation, the erection of the building, the foundation work, and all the general contracting, and the actual engineering, in my understanding is all-Canadian.

There is a heavy accent on Canadian utilization. I think, in fairness to Webb and Knapp, I should add that the president, Mr. Zeckendorf has gone to great extremes to accentuate the desire to use Canadian materials, Canadian talent and money to the maximum possible.

Mr. BROOME: I am not unfamiliar with the engineering field, and I know when an engineer is down in the United States and drawing up specifications, the specifications are bound to be written around American products and the Canadian manufacturer is at a disadvantage.

Mr. GORDON: What things do you have in mind? Take, for instance, the steel. It will be all-Canadian?

Mr. BROOME: I am speaking about machinery such as pumps. I know of a plant which was built in our area in Vancouver where underground valves were used, and because the specifications were American they specified American manufacture and they paid 60 per cent more for them. I have just taken this as an example to show that when specifications are written in a certain country they are written around products which are manufactured in that country.

Mr. GORDON: Certainly my association with the Webb and Knapp organization does not leave me with any doubt as to the use of Canadian materials to the maximum. However, I will make a note of your comments and will make inquiries.

The CHAIRMAN: Paragraphs 72 and 73 are pretty much in the same category. You discussed them under other items.

Mr. CHOWN: Mr. Gordon, why was the concession to operate the Queen Elizabeth hotel rented out to Conrad Hilton?

The CHAIRMAN: That has been dealt with.

Mr. CHOWN: I will not ask to have it answered again. I can read it in the minutes.

Mr. GORDON: I would suggest that you look at my evidence which was given in 1955. I went through it very exhaustively at that time. After you have read it if there is anything more you would like to know I would be happy to speak to you personally about it.

The CHAIRMAN: I might add, Mr. Chown, that the president said today that in view of all the factors he has taken into consideration he is prouder of those negotiations than he is of any other negotiations which he made on behalf of the institution of which he is president.

Mr. FISHER: What about the Toronto field from a hotel point of view. Have you ever considered invading it?

Mr. GORDON: We looked at it and decided against it.

The CHAIRMAN: Are there any other questions with reference to hotels. I do not want to rush you, but I see we are only about half way through this report. We have another one on the Canadian National (West Indies) Steamships, Limited, the Security Trust and the Auditor's report, all for tomorrow.

Mr. FISHER: In connection with the steamships, where may I ask a question about the one which the C.N.R. operates on the west coast?

Mr. GORDON: That is the Prince George. That is a railway operation.

Mr. FISHER: Where may I ask questions on that?

Mr. GORDON: Anywhere you like. I do not think we have a specific item on that in the report.

Mr. FISHER: Have you given any consideration to extending the season for these ships and, if not, what are the difficulties?

Mr. GORDON: We have looked at it from the point of view of using the ship in southern service during the winter, but we have found that the cost of equipping it with refrigeration and so on was such that we would not make a dollar.

Mr. FISHER: What about the employees in the off-season? Are there any special arrangements for them?

Mr. GORDON: We only have the one ship and they are entirely tied into that.

The CHAIRMAN: Communications.

The demand for commercial communications service continued to grow during 1957 and Canadian National Communications facilities were again expanded. Telegraph channel mileage increased by 21 per cent to 610,724 and telephone channel mileage rose by 38 per cent to 142,303.

Mr. CARTER: Do you have a "Telex" service between St. John's and mainland points?

Mr. GORDON: Oh yes.

The CHAIRMAN: Work methods. You have heard Mr. Gordon read this. I take it it is unnecessary to read it again.

Industrial development.

Mr. FISHER: In connection with work methods, most of what is outlined here would seem to affect office and clerical workers.

Mr. GORDON: Yes.

Mr. FISHER: What percentage of them are not covered by union agreements and therefore would have no seniority protection?

Mr. GORDON: Very, very few. I would say less than 10 per cent.

Mr. FISHER: Have you had much in the way of loss of staff?

Mr. GORDON: No. All that we have been able to accomplish in agreement with the unions has been largely on the policy of attrition. We are putting this system in on the basis of agreement with the unions that our turn-over of staff is such that, as the older men reach retirement and so forth, we have not had to lay many off. We have a high turn-over in this particular element because we employ a lot of young girls and young staff. It is a natural attrition. If we stop taking them on we do not have to face the problem of laying them off.

Mr. FISHER: Automation is no particular problem in this instance?

Mr. GORDON: I will not say that, but we are able to work out agreements on it.

The CHAIRMAN: Are there any questions on research and experimentation? Are there any questions on industrial development?

Mr. CREAGHAN: I was wondering if the minister has made any survey, or has any report, on what effect the seaway might have on freight traffic to the maritime ports?

Mr. GORDON: Well we have made various surveys in that. Our general conclusion is that a relatively small portion of our traffic will be affected although it is bound to be affected to some extent in the first instance. But we believe that the fertilizing effect so to speak of the seaway development and particularly the power development—the availability of cheap power in the central region of Canada—will rapidly produce industrial development that will generate new railway traffic. There will be however a transitional period when what I have said in the over-all may not be true. It is difficult to be precise. No one will go out on a limb and make a firm forecast as to the extent to which ships will operate on the seaway. That remains to be seen. In my opinion there may be some unpleasant surprises to be experienced in regard to the actual operation of ships on the seaway and their ability to meet the economic costs and things of that kind.

Mr. CREAGHAN: Did you predict that your freight rate will be competitive with the sea traffic?

Mr. GORDON: They will have to be or we will not get the business. We have always had, as you know, water compelled rates in season. That is a big factor in regard to the railways. You should keep in mind also that at best the seaway is a seasonal operation.

The CHAIRMAN: Are there any other questions relating to the seaway project? May we now turn to cooperation under the Canadian National-Canadian Pacific Act, 1933. "Studies were conducted by both railways during the year to determine the feasibility and value of further pooling arrangements but no new pool services were instituted".

That pooling service was discussed at considerable length before and explained by Mr. Gordon. Are there any further questions on it?

We now come to corporate reorganization. "While there were still 45 companies in the complex of corporate identities comprising the Canadian National system at the end of 1957, progress was made in studies aimed at the elimination of a number of these companies in 1958."

Mr. SMITH (*Calgary South*): The question I have really is also part of your explanation, making some reference in the last paragraph in connection with the abandonment of unprofitable services. You elucidated very clearly the problem which you have of the cost of your operation of which a large proportion is salaries and wages. You come to the conclusion which is dealt with in the last phase of the order in perspective, that one of the only hopes of making this a more profitable operation without another \$30 million loss is in the abandonment of unprofitable services or going back to corporate reorganization, something which may be effected to create some saving there. Am I correct in interpreting that one hope that we have in this railway of seeing it not in a position of showing a \$30 million loss either through corporate reorganization or abandonment of unprofitable services. Is there any other solution?

Mr. GORDON: Corporate reorganization has nothing to do with it. It is purely a technical matter of bookkeeping and a tidying up of the corporate structure. It is the simplification of our books. When this system came together, and up to about five years, we had about 88 different companies. I started an examination of all the legal factors which made it necessary to continue these corporations. We proceeded by a process of merging these subsidiaries with branches of the main bankrupt companies which we took over in 1923. It has been a slow process because we ran into difficulties regarding franchise rights and various other formalities. Our objective is that we will eventually get the C.N.R. system down to six companies and that we will have a railway company, a telecommunication company, a steamship company, a hotel company and one realty company. That is five. Somewhere there is another one but if we can get it down to five, so much the better.

Mr. SMITH (*Calgary South*): May I throw a question back to corporate reorganization. Will you deal with it now.

Mr. GORDON: He asked the question in regard to paragraph 90. So, I will deal with it now. The abandonment of unprofitable lines is certainly a part of our difficulty but I would not say that it is a major part. It is something that we should be very much freer to do and proceed with. But the real point is that the implication of all the capital expenditures that we are putting into this operation—the implications of those capital expenditures—will have to be faced and they will have to be faced in the matter of the necessary readjustments that affect not only labour but affect communities as well as services. As I have tried to indicate I am not at all hard-boiled about these things. I can recognize that the disruption of long-standing operations in any community is a very painful and difficult business. But when we started our

dieselization program back in 1951, when I first went with the railway, I am free to confess that if I had appreciated the scope of the thing and the size of it, I might have been much more faint-hearted than I was in getting on with it. Nevertheless, it has proved inevitable and we have up to now effected our readjustments with a relatively small degree of opposition, objection and excitement. We are, however, at the stage now where, as I have said before, we have the first part of our program through and got the benefit of quite large savings, it is the end part of the program that hurts. We are now at the stage of giving up all steam locomotive operations which eliminate round-houses and requires readjustments of divisional points, decisions in regard to where the operations can best be managed. Unfortunately that will tear out roots—establishments that have been a hundred years in the making. Now despite our best efforts to do that with all consideration possible, it nevertheless does mean a major change and we need desperately an enlightened and understanding public which will accept the need for doing it if the railway business represented by the C.N.R. is to continue to be efficient and reach the place where we will be able to maximize efficiency as well as provide services to the various communities we are serving. If we cannot accomplish this we will go through a long period in which we will have these unnecessary and duplicate facilities. That will just make it impossible for us to get out of our deficit position. I have not by any means come to the conclusion that by reason of the deficit this year we are committed to a long period of deficits. I think there is a period of time when we will have to accept them along with other things. But I still have faith that if we receive intelligent acceptance of what the program means then the C.N.R. can stand on its own feet.

Mr. SMITH (*Calgary South*): You say perhaps, Mr. Gordon, that this is a very important and costly operation, the transitional period. Otherwise we have seen evidence of that through the railway stock, signalling system and so on and this is a phase in which we are going to expect to have these extreme costs.

Mr. GORDON: Yes I should say this, in fact those who are interested I would suggest you read a speech I made not long ago called "Background and Accomplishment." I would be only too happy to make a copy of this available to you. It should not be forgotten that during the four stages of the C.N.R. we came into a stage during the 1930's where for one reason or another the railway was badly run down. There was no money spent on it. Then we came into the war period when money could not be spent on it because the equipment and supplies were not there and we faced the terrific exhaustion of war by a process of improvisation and so forth. When we came out of the war and following the two or three post-war periods, we could not do the rehabilitation job.

So we have a tremendous rehabilitation job of the physical services of the railway plus this technological job in terms of diesel power and it has cost a tremendous amount of capital.

Mr. SMITH (*Calgary South*): Have the first quarter figures shown any encouragement?

Mr. GORDON: Not for this year. You will come to that in the operating budget.

The CHAIRMAN: Are there any other questions?

Mr. FISHER: What responsibility do you feel the railway has in terms of the dislocation and the uprooting you talk about in terms of retraining and relocating people?

Mr. GORDON: Oh yes, we accept that responsibility. As a matter of fact we have had a very large training program. We are giving everyone working for us an opportunity to retain in dieselization methods, not only in the running of locomotives but in shop and electrical work. The fact is that we need electricians and do not need boilermakers. All our men have been given an opportunity to take these courses and regular classes are being held at Moncton, Campbellton, Charlottetown, Halifax and all across the country. They are specifically designed to retrain our own staff to accept the new jobs which become available with the abandonment of the old.

Mr. FISHER: Has there been any resistance to this program?

Mr. GORDON: No, it has been well received. Of course, you find inevitably the older men find it difficult to change. We find the best response from the younger and middle-age people.

Mr. FISHER: Have you noticed any difference in the distance from the medium or larger centres of operations as you get out towards the periphery of your operations?

Mr. GORDON: Mr. Dingle, what would your comment on that be?

Mr. DINGLE: I do not understand the question.

Mr. FISHER: The further you get from a large centre of operation such as Toronto, Stratford or Winnipeg out in the sticks do you find more response there or less opportunity to train people?

Mr. DINGLE: No, we have no difficulty. As a matter of fact in the rural classes a greater interest is shown at the outside points.

This is the case also with our dieselization education program. I cannot say we have experienced difficulty.

Mr. GORDON: Just counting roughly we have upwards of 100 points across the system where the classes are made available.

Mr. CREAGHAN: Do you give any financial assistance to your workmen during the conversion course? Take, for instance, the boilermaker whose job has disappeared; he has an educational background and an interest to become an electrician.

Mr. GORDON: If he takes these courses we keep him on the payroll as a trainee. It is training that works in conjunction with the job so to speak. We give him time off his job to take this course.

Mr. CREAGHAN: At a loss in pay?

Mr. GORDON: No.

Mr. CREAGHAN: He gets his old trades pay while he is taking his course?

Mr. GORDON: Yes.

The CHAIRMAN: We are approaching almost on the minute of 10 o'clock. I think I can say that on your behalf we appreciated the generous explanation the president has given to his annual report. I think it has been very instructive and informative. So if you are prepared to take the financial statement and the auditor's report figures as read, we are open for a motion for the adoption of the annual report.

Mr. BROOME: I so move.

The CHAIRMAN: Moved by Mr. Broome and seconded by Mr. Smith, (Simcoe North) that the annual report be carried. What is your pleasure?

Carried.

The CHAIRMAN: The auditor's report can be dealt with separately. We will need a separate motion for that. We have the auditor's report here but—

Mr. BROOME: Take it now.

The CHAIRMAN: If it is your pleasure we are right on the minute of 10 o'clock. I hope you are all back on the minute at 9:30 tomorrow morning. Thanks for your cooperation. We have the annual report passed and tomorrow we will deal with the West Indies steamship line, the auditor's report and the budget for 1959.

Mr. GORDON: As an orderly procedure I suggest we might go on with the capital budget and the operating budget of the C.N.R. and that will conclude the C.N.R. report and its collateral activities. Then we might deal with the Canadian National Steamship report and its budget and then we take the auditor's report of the C.N.R. and the steamship jointly so the auditor may be called to deal with his report in that order, because by the time you reach the auditor's report you should I think have the benefit of everything affecting the C.N.R. annual report plus our capital budget plus our operating budget. If you take it in that order you will find it more convenient.

EVIDENCE

TUESDAY, July 15, 1958.

The CHAIRMAN: Order, gentlemen.

Mr. CHEVRIER: Would you allow me to raise one or two small questions dealing with the report which I understand has been passed? I was unavoidably detained in the house yesterday and could not be here.

The CHAIRMAN: Very well, if it satisfactory to the committee.

Mr. CHEVRIER: First of all dealing with dieselization: I wonder if you would be good enough to tell me if in the purchase of diesel locomotives the company accepts the lowest tender?

Mr. GORDON: Yes, that is so.

Mr. CHEVRIER: I am dealing now particularly with the shops at Kingston. The question has been raised as to whether or not that is the case. I am glad to have your assurance that it is.

Does the company insist in the specifications upon a percentage of Canadian content?

Mr. GORDON: No, there is no reference made to Canadian content. We make our specifications for the particular unit type of diesel. They are circulated to any manufacturer who wishes to bid.

In other words, an American manufacturer could bid directly if he wished to do so. If he does not, it would be because of the tariff protection.

Mr. CHEVRIER: So a company which has a greater Canadian content in its diesels over another manufacturer would receive no preference?

Mr. GORDON: We would find it quite impractical to work out specifications of that kind.

Mr. CHEVRIER: May I ask about the relocation of the line from Cornwall to Cardinal? Was that done at the exclusive cost of Hydro?

Mr. GORDON: No. What happened there was that we sat down with Hydro and made a very detailed analysis with them comparing what we thought were the advantages and the disadvantages by reason of the relocation. For example, we consider the fact that new material was used and there was a longer life available than would have been the case in the older line, we took all the offsetting factors, including the fact that we had a well-established line.

We then took into account the advantages we would get by reason of the diversion, where it was clear that we had the sole advantage, we paid for it.

Mr. CHEVRIER: Would you tell the committee how much the cost of the diversion was, and how much of it was paid by the Canadian National Railways, and how much of it was paid for by Hydro?

Mr. GORDON: I have the figures on that. Let me read this item which I have here: The total cost of this diversion, including the estimated cost of the grade separations yet to be completed, will be in the vicinity of \$18,000,000. The entire cost of construction is being borne by the Ontario Hydro in honouring their obligation to provide a substitute facility acceptable to the C.N.R. In our negotiations with Hydro, it was accepted as a fair principle that the railway should make some contribution in view of the fact that we were getting a new line of railway to replace a partially depreciated facility. In order to give effect to the old established principle of cost of replacement less depreciation, we agreed on a satisfactory basis of settlement in which we compared the value of the advantages with the disadvantages accruing to the railway on the new line. On this basis, the railway agreed to contribute a sum slightly in excess of \$1,000,000.

Mr. CHEVRIER: Is that inclusive of the \$18 million?

Mr. GORDON: Yes. Our portion of it was \$1 million.

Mr. CHEVRIER: And that includes the construction of the stations as well?

Mr. GORDON: Yes, everything is included.

Mr. CHEVRIER: Does it include the construction of the overpasses?

Mr. GORDON: Yes.

Mr. CHEVRIER: It will cover those which are done and those which are to be done?

Mr. GORDON: That is right.

Mr. CHEVRIER: On the question of lay-offs—I do not want to go into this in detail—but I would like you to make a statement if you would about the magnitude of the lay-offs in the various shops of the Canadian National Railways. What does it mean?

Mr. GORDON: That question was mentioned on quite a number of occasions yesterday and I have made several statements on it already.

Generally speaking our situation is very difficult to pin-point, as to exactly what the total overall may be, because we are taking men on and at the same time we are laying men off.

There has been a diversion of labour arising not only out of the adjustments due to dieselization but also because of the drop in traffic which would be a temporary matter. Seasonal factors also affect the work force. I find it difficult to pin-point exactly what portion of the reduction of the staff could be called a permanent reduction. We are taking on men with certain skill at the very same time that we are laying others off.

Mr. CHEVRIER: Have you closed down any shops because of these lay-offs?

Mr. GORDON: There has been no complete closing down.

Mr. CHEVRIER: What is the position at Fort Rouge where the intention is to close down that shop?

Mr. GORDON: The effect of it is this: there will be no work lost to the Winnipeg area by reason of our readjustment in Winnipeg. The Fort Rouge main shop, as you will recall, was destroyed by fire in 1956 and we do not propose to rebuild it. When we get on with our changes to be made in Winnipeg, both in our marshalling yards, and our new facilities at Transcona, Fort Rouge will be used for the servicing of passenger cars. The rest of our shop work will be concentrated at Transcona. That means that any transfer of

employment will be in the area itself and there will be no work facilities moving out of the Winnipeg area. Winnipeg is one of our three main points for major diesel maintenance and repair.

Mr. CHEVRIER: What about the hotel in Montreal?

Mr. GORDON: And may I add this: you have not had time to see it yet, but we have had an interesting clarification made at Winnipeg a few days ago. There was a great deal of rumour, distortion, and misunderstanding there, but it has all been cleared up by a statement made there which has been very well received.

Mr. CHEVRIER: I am glad to hear that. I asked my question because of a press clipping sent to me having to do with a statement made by Mr. McMillan, vice president of the western region.

Mr. GORDON: I think the situation has been fully clarified now.

Mr. CHEVRIER: Would you tell us how the operations of the new Queen Elizabeth hotel are proceeding and whether it is living up to the expectation for the future that you had.

Mr. GORDON: It is not only living up to its expectation; it has greatly exceeded it.

Mr. CHEVRIER: Good. I am glad to hear that.

Mr. GORDON: We are very satisfied, indeed, with the prospects. On the basis of any estimates made previously, as of now, it has developed as a huge success; and also in looking ahead in terms of conventions that are already booked or are under negotiation, it looks very promising indeed.

Mr. CHEVRIER: Would you mind saying a word about the progress on the north side of the street, that is, the Place Ville Marie, and the building that is to rise on the north side or at the north east corner?

Mr. GORDON: That is well in hand. As you know, Webb and Knapp have the rights in respect to the development of the north side, and they have announced their plan in regard to the so-called cruciform building. Only recently they were able to announce a major arrangement made with the Royal Bank of Canada.

Mr. CHEVRIER: When is construction likely to begin?

Mr. GORDON: I think construction is likely to begin within a week. There will be definite activity soon.

Mr. CHEVRIER: What about the new office building for the Canadian National Railways, is that proceeding?

Mr. GORDON: It is. We have already got the foundation work started.

Mr. CHEVRIER: Where will it be located?

Mr. GORDON: At the corner of Lagauchetiere and Mansfield, just south of the hotel.

Mr. CHEVRIER: That is between the hotel and the aviation building?

Mr. GORDON: No. That was what was originally planned, but we gave it up because we did not feel that the Canadian National Railways needed to be in that location which was what we hoped would be a very high revenue producing building. Eventually a building will go in there.

Mr. CHEVRIER: Thank you.

The CHAIRMAN: Now, gentlemen, we will take this up in the order which we indicated last night. You have before you the budget for 1958. You each have a copy of the capital budget and estimated income account.

Mr. GORDON: I would like to make a brief introductory statement in order to assist the members to follow the order in which I suggested we might proceed.

Let me say that our 1958 capital budget comes about mid-way in the program of heavy capital rehabilitation, which commenced in 1950.

By that year wartime shortages of equipment and material had ceased sufficiently to allow for our planning for capital expenditures and in order to take cognizance of our own need for physical rehabilitation of railway property necessarily deferred during the war and immediate post war years.

Added to that was the need to recognize widespread technicological developments which were exemplified by but no means limited to, dieselization, and the growing effect of greatly intensified competitive transportation methods.

A detailed analysis of all this would make a very lengthy statement by way of background material. But for our immediate purpose I suggest the committee might find it more convenient to turn directly to the pages which are now before you where we have tried to present this statement in a manner which will give members of the committee a financial summary of the highlights.

I shall run through them. Our custom has been to deal with any questions which you think of interest. And following the budget, you will find an attached statement known as the operating budget.

The document to which I would direct your attention is the capital budget and estimated income account. I suggest you leaf over the first two pages and go to the page headed page one. There you will find a summary of the 1958 capital budget in the form which has been used for the past several years.

I think the committee will find it useful to grasp the main highlights of the budget before we get into the details. Therefore you will find on page one under the heading of 1958 proposals that we have summarized it at an overall total of \$377 million, the proposals which are new for the year 1958.

That includes, as you will observe, the figure of \$47,123,000 under the heading of "Investment in affiliated companies" such as T.C.A.; but we will give them to you when we come to that item in the budget later on.

You will observe under the heading "Cost to complete projects authorized in prior years", a total of \$168,354,000.

These projects have already been authorized and are in progress.

For the purpose of this budget, they form the same kind of thing you are accustomed to meet with in the House of Commons under the heading of revotes.

There is a grand total budget shown as \$545,596,000.

The important thing, or the most interesting thing for our purpose is the column under the heading of 1958 expenditures. That represents our estimate of cash expenditures to be made during 1958 under the various headings, as being the discharge of the total budget of \$545,596,000.

That is what the Minister of Finance is interested in, because that is the money we will have to raise for the Canadian National Railways in order to finance payments out in this budget.

With these main items in mind, will you now please turn to page two.

Mr. CARTER: Could you give us the estimated expenditure for last year and the actual expenditure?

Mr. GORDON: Yes. It was \$266,062,000 actual as compared with an estimated expenditure of \$268,707,000. Incidentally, that \$266 million of actual expenditure appears as a budgeted expenditure of \$268 million. So you see we came within \$2 million of spending what we intended to spend.

On page two you will see how this operates. Under the heading of "Gross capital expenditures for the year 1958", you will find summarized the total which comes to \$302,623,000, and that again checks off with the item on the previous page.

We say under the heading of "Sources of funds" where we expect to find the money. We will take out of depreciation accruals and so on the sum of

\$85,130,000; an arrangement will be made whereby we shall sell preferred stock of \$21,000,000 to the government under the provisions of the Capital Revision Act of 1952. We have to borrow during the year either from the public or the government a total of \$196,493,000.

Mr. CHEVRIER: How much will be borrowed from the public and how much will be borrowed from the government?

Mr. GORDON: That will depend entirely on when the government wishes us to go on the market.

We first of all borrow from the government, then we discuss with the government when would be the appropriate time to float a market issue.

We necessarily adjust ourselves in our approach to the market on the state of finances of the government in relation to their large and bigger job of government financing directly. At the moment, in view of the announcement of the \$6,400,000,000 refinancing, it seems obvious that we will not be in the market until that is out of the way.

Mr. FISHER: Have you noticed that the United States Congress has just introduced some new system of capital funds to help the railroads?

Mr. GORDON: It is under discussion but nothing has been done yet. The Smathers' committee has made a number of recommendations to assist the railways in their financial plight, but as I understand it is still at the discussion stage.

Mr. FISHER: It is recognized in the United States that the railways are in a desperate plight.

Mr. GORDON: Yes. The plight of some railways is very dangerous, indeed, and I do not think it is too much to say that three of them are actually facing bankruptcy.

Under the heading of "January 1, 1959 to June 30, 1959"

The annual Financing and Guarantee Act is the statutory authorization for the C.N.R. capital expenditures and additional borrowing. Typically this act is passed by parliament towards the end of the first half of the year. As a practical measure the act for the current year, in this case 1958, also provides interim authority for capital expenditures on previously approved projects during the first half of the ensuing year, in this case 1959. This interim authority is superseded by the passing of the next year's Financing and Guarantee Act.

The caption "Existing financial authority" at the bottom of the page demonstrates how this process works; it sets out the extent of the interim authority which was provided by the 1957 act with respect to the first half of 1958. The interim needs having been met, these figures have now been moved up into the "Year 1958" totals at the top of the page for formal authorization in the 1958 Financing and Guarantee Act.

In the normal course of carrying out approved capital budget projects it is necessary for us to sign contracts with other parties (principally equipment manufacturers) which entail deliveries and payments falling outside the budget year. The total of such projects for 1958 is \$110.0 million. The cash for such contracts during the first half of 1959 is included in the January 1, 1959—June 30, 1959 interim financial authority figure of \$134 million while the balance will become a current cash item in the 1959 gross capital expenditure budget.

The other pages, 3 through 7, provide further information with respect to the major items included in the summary. Page 8 is a statutory statement of the 1958 refunding requirements and page 9 presents the 1958 operating budget forecast.

If you will turn to page 3 we can get on with the job of examining the specific summary and the details of the items we are presenting for approval in this budget. Again this item on page 3 under the heading of "Summary of road property, capital budget projects by areas" will summarize the gross total of \$253,375,980 which is the heart of our budget.

Apart from equipment purchases which are dealt with separately, this is the gross figure, and there is shown at the bottom of the page the actual cash expenditures under each one of these headings.

You will observe under the heading of "Line diversions", that we plan in the Atlantic Region an expenditure of \$35,900; in the Central Region, \$5,656,000; and in the Western Region, \$8,400. I suggest that we deal with each item as we go along.

Mr. CHEVRIER: May I ask about the line diversions in the central region? How many of them are line diversions which are not approved by parliament?

Mr. GORDON: I do not know just what you mean?

Mr. CHEVRIER: I mean those lines that you are authorized to build under the statute without an act of parliament.

Mr. GORDON: None of these is lines which require a separate act. The total is \$5,656,000. It arises out of main line diversions, and an entrance to the Côte de Liesse yards, at a cost of \$4,900,000.

Mr. CHEVRIER: That is what I was coming to. That is what you see as you go into Montreal. Is the work progressing fairly satisfactorily? When will that diversion be completed, and how long will it be?

Mr. GORDON: Well, we are planning this year on a grand total program of \$4,900,000. This budget calls for an expenditure of \$400,000 in 1958, and the commitment for expenditure will be \$500,000; so we will have \$900,000 of the total expenditure in play for that actual diversion.

Now, we have to go to another heading to get the whole progress of the yard, and to complete the yard itself and all the necessary approach facilities will take about five years. Our approximate estimate of the period is 1961. We figure that we will complete the total project of the Cote de Liesse yard by about 1961. The entire project will total over \$30 million.

Mr. CHEVRIER: How will it affect entry into the central station?

Mr. GORDON: It will have no bearing on the entrance to central station. It is completely a freight yard. It is a hump retarder classification yard, as we call it, for the purposes of marshalling our freight. It will have no bearing on passenger traffic into central station.

Mr. FRASER: Mr. Chairman, I want to ask Mr. Gordon if there is anything to be spent of this money around Ottawa at the first of the year?

Mr. GORDON: In the totals including the entrance for the yard at Cote de Liesse there is an item for Cornwall to relocate some tracks on account of the St. Lawrence seaway and there is \$466,000 in play, and the last item is a rearrangement which included among other things Seaway requirements in the St. Lambert area.

Mr. CHEVRIER: The diversions in Ottawa are paid out of the Federal District Commission, are they not?

Mr. GORDON: That is a separate matter altogether. That has been at the Federal District Commission expense.

Mr. FRASER: You would not have any item at all?

Mr. GORDON: Not under this heading. This is line diversions. There will be, however, expenditures that affect us.

Mr. CHEVRIER: This is all lines under seven miles?

Mr. GORDON: All lines six miles and under on which there was no special statutory provision.

Mr. CARTER: Will any of this be done on the Atlantic region?

Mr. GORDON: Under the Atlantic region there is only \$335,900, and this is being spent on the Cascadia subdivision which includes the relocation of 1600 feet of main line at mileage 42.7, straightening out a bad curve.

Mr. CHEVRIER: Is the diversion at Cornwall in connection with the seaway or has it got to do with the purchase of the New York Central by the Canadian National Railways?

Mr. GORDON: It has nothing to do with the New York Central.

Mr. PASCOE: I wonder whether Mr. Gordon can say where the western region starts?

Mr. GORDON: The Western Region starts at Armstrong and runs right through to the British Columbia coast. Winnipeg is the headquarters of the Western Region.

Mr. PASCOE: And the Hudson Bay Railway is not included, you have a separate item for that?

Mr. GORDON: It is now. We have just recently taken over the Hudson Bay Railway. It was formerly run separately but there have recently been changes made in the terms of entrustment.

Mr. CHEVRIER: Well, the Hudson Bay Railway item is voted by parliament as a separate item.

Mr. GORDON: Not now, we have recently been entrusted with the Hudson Bay Railway.

Mr. CHEVRIER: When was that?

Mr. DINGLE: Effective January 1st, 1958.

Mr. GORDON: It has been under discussion for quite a while but the formalities have been completed this year.

Mr. CHEVRIER: You always managed it, did you not?

Mr. GORDON: Yes, originally it was a separate company and we managed it. We made it a division of the Canadian National and operated it for all purposes but it was treated in its accounting as a separate item. We have now taken over the Hudson Bay Railway in exactly the same way as we have done with other railways.

Mr. CHEVRIER: Then in your accounts there will have to be in future an item covering the deficit of the Hudson Bay Railway?

Mr. GORDON: Yes, that is right.

Mr. CHEVRIER: There is an item in this year's estimate for the Hudson Bay Railway deficit?

Mr. GORDON: This is maybe the clean-up item. It will be in our estimates from now on.

The CHAIRMAN: Any comments on roadway improvements?

Mr. GORDON: I do not want to leave any misunderstanding here. I want to make it clear that there will no longer be an item you will recognize as a deficit or profit for the Hudson Bay Railway. It is meshed into the estimates in total.

Mr. CARTER: May I ask—this is a considerable amount on roadway improvements in Newfoundland and just for my information—

Mr. GORDON: Are we on that item now?

The CHAIRMAN: Yes.

Mr. GORDON: We are dealing now with roadway improvements and your question is, are there any improvements included in Newfoundland?

Mr. CARTER: I presume that is rebuilding roadbed, laying track and regrading?

Mr. GORDON: The total item there is the general operation of the railway. It covers replacement of rails, fastenings, tie plates, rail anchors; it includes the installation of ties, ballast, widening of cuts and fills and everything—bridges, trestles, culverts. That covers what might be called the operational requirements.

Mr. CARTER: How does that compare with last year's expenditures?

Mr. GORDON: The expenditures last year for 1957 were \$1,403,000 as compared with a budget of \$1,497,300. This year our budget is \$1,782,000.

Mr. PASCOE: I wonder, Mr. Gordon, If you could give a breakdown in regard to the Hudson Bay line?

Mr. GORDON: Under roadway?

Mr. PASCOE: Yes, it is other lines including the Hudson Bay Railway.

Mr. GORDON: The grand total covers again, as I say, rails, fastenings, tie plates, rail anchors, bridges, culverts and so on, and we have estimated for the Hudson Bay portion approximately \$800,000.

Mr. PASCOE: That is for the Hudson Bay Railway alone?

Mr. GORDON: That is right.

Mr. CARTER: Will most of this work be performed by regular maintenance employees?

Mr. GORDON: Yes, by the regular maintenance employees of the railway.

The CHAIRMAN: Any other questions? Large terminals, Atlantic region.

Mr. FISHER: That is a tremendous increase in the expenditure in the western region for terminals.

Mr. GORDON: It is in fact true of other items here. We have for many years planned elimination of terminal congestion and after a great deal of study we have now put in process the necessary terminal construction at Moncton, Winnipeg and Montreal, which we have just discussed. We have got, we think, most of our terminal congestion problems solved, with the exception of Toronto. We are still struggling to find a solution in the city of Toronto which we have not yet arrived at.

In the western region we have now crystallized the plan for the large terminal at Symington yard. This is a hump yard at Winnipeg and is intended to be one of the key system freight marshalling terminals which will function as a team to permit a greater freedom of flow for freight traffic. There will be substantial operating economies effected at Winnipeg and we have planned to take care of expansion in the foreseeable future. These yards are so arranged that they will synchronize with each other and eliminate a lot of duplicate work. The trouble in the west, of course, was that we still had an inheritance of the old Canadian Northern and Grand Trunk and until we make a complete amalgamation of the two there will be considerable congestion.

Mr. FISHER: What is the Toronto problem under discussion?

Mr. GORDON: Congestion and the fact that no plan was made thirty years ago. The real trouble in Toronto was that if there had been proper planning thirty years ago this would not have arisen, but now the city is so built up there is no place we can find in which to establish a yard. All yards have been concentrated down around the lake front and everything now has to come in to the lake front and out again. It is like spokes in a wheel and we

are now working with planning authorities to see what the remedy is. We have outside consultants examining the problem with us. I do not know what the solution is going to be. It may be we will have to go into a series of yards to carry the traffic, but we would prefer one large hump yard if we can find the area.

The CHAIRMAN: Any other questions on terminals?

Mr. CARTER: May I ask, Mr. Chairman, what is included besides Corner Brook and St. John's in this \$3 million for activities at Newfoundland?

Mr. GORDON: Corner Brook—the item we have in here is an item which will authorize the purchase of land as well as making additions and improvements to the area. It is a re-vote item too. The grand total of it is estimated to be \$1½ million and the amount we expect to spend this year will be an actual expenditure of \$390,000 and probably a commitment of around a quarter of a million dollars.

The way the rest of that item is made up is at St. John's where we have to purchase land as well as make additions and improvements. That has also been previously authorized to the extent of the land purchase and the new amount we are asking for here is \$1,150,000 towards a total budget of \$1,600,000 of which we will be spending over \$450,000 and commit ourselves to some \$450,000.

Mr. CARTER: That sum is taken up entirely on Corner Brook and St. John's?

Mr. GORDON: Yes.

Mr. CARTER: Nothing besides that?

Mr. GORDON: Not under this heading of terminals.

Mr. CARTER: Well, I was going to say is that the same with buildings?

Mr. GORDON: We come to an item on buildings farther down.

Mr. CREAGHAN: Under the same heading of terminals, Atlantic regions, \$15,755,000, does that include a hump at Moncton?

Mr. GORDON: Yes, it does.

Mr. CREAGHAN: Is that a re-vote or a new vote?

Mr. GORDON: Yes, the Moncton hump yard is a re-vote although it is a re-vote in part only. It is a re-vote in the sense that we had the project approved and got authority for the purchase of the land, but the new item required for the yard is the item we are discussing now. The total cost of the project is estimated at \$15 million and we expect to spend this year a total of \$1,150,000 and have a commitment for further expenditures of \$1½ million.

The CHAIRMAN: Any other questions on terminals? Yards, tracks and sidings.

Mr. CHEVRIER: On the question of the terminal at Montreal is anything being done to hasten the entry and exit of passenger trains out of the station?

Mr. GORDON: The passenger trains out of central station?

Mr. CHEVRIER: Yes.

Mr. GORDON: I guess the answer to that is no. We are still studying the problem.

Mr. CHEVRIER: It is a pretty difficult problem because of the canal?

Mr. GORDON: We have a number of proposals under examination. It is a very difficult problem and a very difficult bottleneck there, but we are trying to see if we can bring into play an approach through the tunnel of Mount Royal. That would be very costly in any way you look at it, and we are now examining that location and other proposals, but I believe there is nothing in this budget on it.

Mr. CHEVRIER: I realize that. Would that shorten the time considerably if you were to use that tunnel?

Mr. GORDON: It would not make much difference in time, but it would give us a better service for passengers from the Town of Mount Royal and other areas.

The CHAIRMAN: Any other questions?

Mr. FISHER: The figure on the extension to sidings has been set roughly at 100 cars. I wondered why they were not larger after you had told us there will be a few longer trains?

Mr. GORDON: Our studies on that have been based on the considerations of the traffic volume in particular places, the frequency of freight trains, and so on. Now, the longer a siding the bigger the cost, of course, and we examined that on the basis of train frequency, train loading, service requirements, etc. You will remember, that our average siding, except in western Canada, where I think we will reach a maximum of 117, is 100 cars capacity, and we are establishing that as a standard. That is the economics of operations.

The CHAIRMAN: Yard tracks and sidings—any comment on them? Buildings.

Mr. CARTER: May I put my question now on the buildings?

Mr. GORDON: Yes. What was your question again, Mr. Carter?

Mr. CARTER: What is in this item apart from Corner Brook and St. John's?

Mr. GORDON: The grand total in Newfoundland is \$797,900. It covers quite a number of small items. There is a station alteration at Deer Lake, construction of a freight shed at Lewisporte, a dwelling and bunk house at Bishop's Falls, an express office at Gander, oar repair shop extension at St. John's as well as some small items covering extra equipment for docks and there is an item of a stores building at St. John's, which is \$22,700; and that is it.

The CHAIRMAN: Quite a few of these items were dealt with in the annual report that was passed yesterday. We discussed general policies on it.

Mr. FISHER: Are there any new buildings at the lakehead in that \$14 million figure?

Mr. GORDON: There are quite a number of small items in this figure. There is an item at Fort William, the replacement of some section tool-houses, \$9,000, an item at Port Arthur replacing three B. and B. buildings, \$13,000, and there is another item, construction of a repeater station in our communications at Fort William which will be \$51,000, and I think that is all at the lakehead.

Mr. FISHER: Thank you.

The CHAIRMAN: Any further comments?

Mr. MARTINI: Mr. Chairman, in Hamilton, the Canadian National Railways station there, the steps are quite high.

Mr. GORDON: The steps are high?

Mr. MARTINI: Yes, very high from the platform. Has any consideration been given to putting an escalator in?

Mr. GORDON: No I have never heard that complaint before.

Mr. MARTINI: Well, I have heard it many times.

Mr. GORDON: I would think the cost of an escalator would be almost prohibitive in relation to the actual need.

Mr. MARTINI: The steps are quite high.

Mr. GORDON: There are pretty high steps out of the Ottawa station too, as I recollect. The walk up there is pretty severe, but the cost of escalators is pretty heavy.

Mr. MARTINI: You can go through the tunnel.

Mr. GORDON: Yes, down through the hotel, but you still have a walk.

Mr. CARTER: Might I ask, Mr. Chairman, are there any plans to rebuild the station at St. John's, or to build a new station there?

Mr. GORDON: No.

Mr. CARTER: The fire you had in the express office, are those repairs included in this item?

Mr. GORDON: The necessary facilities will be provided this year.

Mr. SMITH (*Calgary South*): I wonder if I could ask whether or not you have carried on any further discussion on pooling your facilities with the Canadian Pacific Railway in Calgary? There have been some discussions.

Mr. GORDON: I know the problem there. There is nothing that could be regarded as serious discussions, no.

Mr. SMITH (*Calgary South*): Could you tell me whether in the time that you have been carrying on these discussions during the past year any work has been done in the main station?

Mr. GORDON: Yes, under buildings but as a revote.

Mr. CREAGHAN: Mr. Gordon, I wonder how you arrive at this figure for buildings for the maritimes?

Mr. GORDON: The Atlantic region?

Mr. CREAGHAN: Yes. It seems to be a very, very small amount for capital investment in buildings for such a large area. When you consider it includes the maritime provinces and a big part of Quebec it is about six per cent of your national building program and in most cases the buildings are probably a hundred years old and with old platforms. It seems to me that besides the dieselization program some buildings should be improved to make your facilities attractive to the public and attractive to work in.

Mr. GORDON: Well, of course, all our capital expenditures are aimed at meeting actual needs. Personally, I see nothing wrong about a building being a hundred years old of it serves the operating requirement of the railway. I think it is a fetish that we sometimes have to get rid of buildings just because they are old. We should be developing a pride in older buildings!

Mr. SMITH (*Calgary South*): Like the Chateau Laurier.

Mr. GORDON: Well, I must say I have a great deal of pride in the Chateau Laurier.

Mr. SMITH (*Calgary South*): You like the character and atmosphere.

Mr. CHEVRIER: I lived there for six years and I have the greatest respect for the Chateau Laurier. I think it is the best hotel on this continent.

Mr. FRASER: The finest piece of architecture on the continent.

Mr. GORDON: I am glad you inspired these compliments, Mr. Smith!

Mr. SMITH (*Calgary South*): You asked for it.

Mr. CHEVRIER: Was some investigation or survey made of transportation facilities by the Canadian National Railways in the Atlantic region?

Mr. GORDON: Are you referring to the inter-departmental committee?

Mr. CHEVRIER: Yes, and to a statement which was made by the former Minister of Finance in the house that the Canadian National Railways was undertaking a survey of transportation for the Atlantic region.

Mr. GORDON: There is an inter-departmental committee dealing with the whole question of transportation facilities in the Maritime Provinces. The Canadian National Railways has an observer on that committee; we are not

active members because it is an inter-departmental committee of Government but we have an observer on the committee and we have undertaken to give them all the assistance we can in their inquiries.

Mr. CHEVRIER: Could you tell me who is the chairman of the committee?

Mr. GORDON: Perhaps the Minister of Transport could answer that, but he is not here at the moment.

Mr. CHEVRIER: Can you tell us what has been the result of the investigation thus far?

Mr. GORDON: No, I do not know where the committee is at. They are not reporting to us. Apart from that the CNR is making an industrial survey with the intention of finding out the industrial potentialities of the region and trying to work out an attractive brochure that can be placed before industry. The point is that the inter-departmental committee is a departmental committee under the jurisdiction of the Minister of Transport and we are only observers or consultants or whatever you may want to call us in that respect, so I cannot tell you about the progress.

Mr. CHEVRIER: I understand that the Canadian National Railways were undertaking a survey of their own?

Mr. GORDON: That is right. An industrial survey.

Mr. CHEVRIER: Could you present some statement about the Canadian National Railways investigation?

Mr. GORDON: Only that it is in progress and we have not received a report. We started the survey last January and in January we covered Stellarton, New Glasgow, Trenton and so forth. Then they started at Truro and then Saint John and so forth, and those surveys include a careful mapping of the railway lines, streets, sewers and the like, all facts which would be of interest to prospective industries. It will take us some time to deal with it. The results will be put out in a sort of brochure form which will be available to prospective industries.

The CHAIRMAN: That was discussed in the general report.

Mr. GORDON: Yes, sir.

Mr. CHEVRIER: Following the construction of the Canso Causeway there was some fear by the two towns on both sides that they would be seriously affected and a committee was formed to see if some other industries could not be found to go to the assistance of those two areas on the north side. Can you tell me what has come of that?

Mr. GORDON: No, I do not know.

Mr. FISHER: Mr. Gordon, there have been some very bitter criticisms of Canadian National Railways service that have been made by Conservative members of the house, I think the member for Restigouche-Madawaska and Cape Breton North. If so, what steps are you taking to meet that sort of criticism?

Mr. GORDON: Well, I do not know what heading we are under now, Mr. Chairman.

Mr. FISHER: They commented upon the buildings.

The CHAIRMAN: I think you are getting pretty far afield from the agenda here and I think we should get back on the tracks. We have been through a lot of details. Let us concentrate on the budget. We were discussing yards, tracks, sidings and buildings and if there are no other questions on buildings—

Mr. MITCHELL: Mr. Chairman, could I ask a question? Some time ago I asked about the extension of service in the Sudbury area and I was told there

had been some consideration and it would be found in your budgetary estimates. Have you any idea what those items of service are that you are contemplating improving in the area?

The CHAIRMAN: That is in the Sudbury area?

Mr. MITCHELL: Yes.

Mr. GORDON: There is an item covering the purchase of 23 acres of land for freight and passenger facilities in the budget.

Mr. MITCHELL: You have the figure, but you do not care to give me the figure?

Mr. GORDON: I will give you the estimate if you want it. I prefer not to.

Mr. MITCHELL: All right.

Mr. PASCOE: Mr. Chairman, rather than ask a lot of questions in regard to the Hudson Bay Railway you have a list of the expenditures. Is that list available for inspection?

Mr. GORDON: No, because they are all in the form of estimates here. I would be very glad to run over them with you on any point.

Mr. PASCOE: Anything for Watrous, Saskatchewan, then?

Mr. GORDON: I will be glad to look up any specific item.

Mr. SMITH (*Simcoe North*): I would suggest, Mr. Chairman, that a lot of these small items could be answered to the satisfaction of the individual members if they wrote Mr. Gordon or some of his staff later.

The CHAIRMAN: I was going to suggest that. It seems we are getting into a lot of detail on our respective ridings. I would like to ask a lot of questions about Cookstown, Tottenham, Shelburne and Orangeville. We are all interested in our own ridings and in individual items. Mr. Mitchell's question was all right on Sudbury. He asked it yesterday and was told to ask again at the time the budget was discussed. He asked if there was going to be any general expenditure at Sudbury and he got his answer. But the answering of these individual items has taken up a lot of the committee's time. I think we should stick to general policy of the railway in the budget rather than go into a lot of detail.

I am, of course, particularly interested in my own cases and would have a lot of questions, but I happen to be acting as chairman of the committee.

Now, on buildings, is there anything further you wish to ask on that?

Well, highway traffic protection.

Mr. FRASER: Mr. Chairman, I brought this up on other occasions regarding highway crossing signs which are now on street crossings.

The CHAIRMAN: Yes, that is the one we are on now.

Mr. FRASER: I suggested in this committee some few years past that crossing signs should be sloped the way the railway crosses so that they show the people coming to the railroad track which way that track lies because sometimes it is rather dangerous. You might think it is a straight crossing, and it will turn out to be at an angle. If the railway was coming from the other direction you might put a stripe on the bars sloping from the lower right hand side up to the top on the left.

Mr. CHEVRIER: Is that not a matter for the Board of Transport Commissioners?

Mr. GORDON: I think it would come under the regulations of the Board of Transport Commissioners, yes.

Mr. FRASER: Would it not be a good idea for your company to suggest it if you thought it worth while?

Mr. GORDON: Yes, but I would not care to deal with it as a practical matter at the moment. However, I will make a note of it and have our operating people look at it.

Mr. FRASER: Thank you. I brought up before in this committee about the new freight cars which you are building. Why not put a coloured line across the bottom of those freight cars so that people at night—and in a rainstorm—might see them, instead of seeing the present dirty brown colour only.

Mr. GORDON: Because it would be extremely dangerous.

Mr. FRASER: Why?

Mr. GORDON: Because in the marshalling of trains we cannot control the type of freight cars which may be in those trains. We handle freight cars from all over North America and from every railway in the United States. There are over one million involved.

If we had our cars marked with a light stripe, then, anyone coming along at night would see them with the headlights on his car, but there might be a blank occasioned by the cars of some other railway which did not mark its cars with a light stripe, being included in that freight train. Therefore the automobile driver might presume that the train had gone by, and drive into the side of the train. So I think it would be very dangerous.

The CHAIRMAN: You are getting into technical engineering aspects.

Mr. FRASER: I think that most American freight cars have big white lettering on them. I have not seen any American freight cars yet that have not got big white lettering on them stating to which line they belong.

Mr. GORDON: Are you talking about reflectors and lights?

Mr. FRASER: No, I mean something painted on the bottom of the freight car, let us say six inches or a foot high which would reflect your lights.

Mr. GORDON: This whole question of safety measures is under constant examination by a joint committee of the railways. I cannot answer whether this particular point has been brought up, but certainly every possible idea which would mean safety has been under consideration.

Mr. FRASER: Every week or so you can read where somebody has been killed by striking freight cars.

The CHAIRMAN: Consider highway crossing protection and signals. These signals involve about \$11 million. Does that mean signals on the highway?

Mr. GORDON: No. It means operational signals, centralized traffic control, and that sort of thing.

The CHAIRMAN: I think in general there is a feeling throughout the country that we do lack on both railroads sufficient warnings at the tracks.

I have been a member of parliament for some 30 years, and I can remember in conjunction with other members along the border in Peel and other places, that we got signal lights installed through the Board of Transport Commissioners.

The railroad has put in hundreds and hundreds, but there are still lots of places where the train service is fast, and there are a lot of dangerous places yet. With the increase of automobile traffic and with the speed of cars increasing, this is a very important point.

The item you have under railway crossings is not very large in view of the whole dominion. It is \$799,000.

I think nearly all the members here have similar situations in their districts, and that they feel very strongly about it. There are a great many accidents still and there are a lot of places where safety measures could be increased. I merely pass that on.

Mr. RYNARD: I would like to ask a question about this point: whether the highway department and the elimination of level crossing is a better answer than signals or lights, because often times these signals fail to operate.

The CHAIRMAN: A crossing would be safer.

Mr. GORDON: We have had practically no reports of failure of signals where they are installed. They are under very careful supervision all the time and I cannot recall any accident report that I have looked at—and I look at them very carefully—where the cause has been the failure of signals.

If a signals fails, it fails negatively. It will go red. If anything goes wrong with it, it will show "stop." So it is not the failure of a signal which causes an accident.

I would like to comment in a general way on what the chairman said. I think there is a popular misconception that the matter of grade crossing accidents is the sole responsibility of the railway. It is not the responsibility of the railway.

The cause of accidents arises in most part out of the highway approach. In most cases we have been there for half a century before there was any highway traffic. So when motor cars begin to come along, there is a grade crossing and this makes it dangerous for us as well as for themselves.

As a railway we do not see why we should pay for the cost of signals or underpasses or overpasses to look after highway traffic. There is a grade crossing fund established, out of which contributions can be made upon the authority of the Board of Transport Commissioners for any grade crossing which becomes dangerous. Any person may make representations in regard to a dangerous crossing.

We will always approach these representations on the basis that we are perfectly happy to have signals installed, or underpasses or overpasses constructed, but not solely at our expense. We are prepared to pay a share of it, but not all of it.

Mr. CHEVRIER: My comment is this: that while what you have just said is true, it strikes me that the amount provided for highway protection in this item is small in relation to the fact that parliament last year or the year before increased the amount to be paid into the grade crossing fund. It is now, I think, \$15 million.

The Board of Transport Commissioners will determine that out of that fund there will be so much money paid to the Canadian National Railways and so much paid to the Canadian Pacific Railway; and the railways themselves have to pay a certain portion depending on what you said a moment ago as to relationship between the highway and the railway and how long the railway has been there, vis-à-vis the highway.

In view of the fact that the grade crossing fund has been so highly increased, it seems to me that the amount paid by the Canadian National Railways should be greater than the amount stated here. I do not say that critically.

Mr. GORDON: You are looking only at the portion that we will pay out; but our portion of a particular project may be only ten per cent, so you cannot judge it.

Mr. CHEVREIR: In view of the fact that the grade crossing fund was so highly increased, it seems to me that this figure should have gone up in proportion. It seems to me that this is not sufficiently high compared to what it used to be.

Mr. GORDON: Inspired by whom?

Mr. CHEVRIER: By the Board of Transport Commissioners.

Mr. GORDON: Who should take the initiative? That is the question. If we ourselves reach the conclusion that a particular crossing has become

dangerous we will take the initiative and bring it to the attention of the Board of Transport Commissioners and ask for action. But remember there are 33,000 crossings across Canada.

Mr. CHEVRIER: As I understand it, the matter is generally taken up by the municipality or the province, whichever is the owner of the highway. Most of the time of course it is done by the railways. But it strikes me as important that this amount seems to be rather small in comparison with what parliament has done to increase the grade crossing fund.

However, I may be wrong.

Mr. GORDON: You cannot judge it merely from the figures you see here because you have fourteen other railways in Canada who are dealing with the grade crossing fund.

It would appear that there is an implied criticism of the Board of Transport Commissioners in what has been said here. I do not think it is a fair criticism at all, and the matter should be looked at in the overall. This fund covers all the railways in Canada and you cannot judge it by our particular share of it.

You may find that the Board of Transport Commissioners has substantially increased the fund in the light of the factors you mentioned.

Mr. CHEVRIER: The criticism was meant to be of the Canadian National Railways as well as the Board of Transport Commissioners. I hope you understood me rightly.

Mr. GORDON: I am not aware of any crossing applications which we have resisted apart from representations about our share of cost.

Mr. SMITH (*Simcoe North*): I take it that this \$799,000 includes the Canadian National Railways' contribution to both signal lights as well as to grade separations?

Mr. GORDON: You are talking about highway crossings?

Mr. SMITH (*Simcoe North*): Yes.

Mr. GORDON: It covers all forms of crossing protection.

Mr. SMITH (*Simcoe North*): What has been the experience of the Canadian National Railways in the matter of changing the arms on your gates? I mean the shortening of the arms so that they actually cover only one half of the road? What has been your experience in respect to that change?

Mr. DINGLE: There is no difference at all. Both types are broken.

Mr. SMITH (*Simcoe North*): Following that question, what results have you had from receiving complaints about the removing of the pedestrian arm on the gates?

Mr. GORDON: It has not come to my attention.

Mr. SMITH (*Simcoe North*): On the big gate there is a short arm on some crossing gates, and these have been removed.

Mr. GORDON: I have heard nothing about it. However you just cannot fool the public: They will crawl under it or climb over it or do anything at all. They will commit suicide as far as we can see, if they are bound and determined to get across; they will take chances no matter what you do.

Mr. RYNARD: When you meet with the Board of Transport Commissioners to deal with these problems, what criteria are there having to do with the putting in of grade crossing separations or putting in lights?

Mr. GORDON: The Board of Transport Commissioners will at any time upon application from a responsible party, conduct an examination of the crossing and arrive at a conclusion as to whether it is dangerous and needs protection.

Mr. RYNARD: Accordingly to the ones I have observed in my own small way, a few people have to be killed before there is any action taken. There is one right close to my home town where two people were killed. It is a very dangerous crossing.

Mr. GORDON: Every crossing is potentially a killer. It does not matter how limited the traffic may be. There are bound to be occasions when someone is careless at a time when the train happens to be passing. Consider a crossing where there may be only one train a week. It is quite possible that somebody will step in front of that train.

Mr. RYNARD: My point is this: There must be criteria. The crossing I mentioned looks dangerous to me. The main line of the Canadian National Railways goes through there, and not only that, but on that road traffic has increased terrifically over the last ten years because of the big tourist development in that area.

Mr. GORDON: In those circumstances it is the public duty of the local municipal authority to make representations about that crossing.

Mr. RYNARD: They did, but nothing was done.

Mr. GORDON: I know, and the reason is that it will cost them some money.

Mr. RYNARD: What are the criteria? Is it the cost in money or the loss of life?

Mr. GORDON: It is the degree of danger in relation to the traffic going across that crossing.

Mr. SMITH (*Simcoe North*): Sometimes where there is a real need for a light, the municipalities have found that the railway involved drives a pretty hard bargain.

Mr. GORDON: I am glad to hear that. It shows we are watching costs.

Mr. SMITH (*Simcoe North*): But in our desperation to get a light, where pressure is put on the local municipality, sometimes they might agree to pay more than their just share.

Mr. GORDON: What happens is this: we appear before the board. Let us say it is a municipality involved. The Board of Transport Commissioners is the judge and they will decide on the basis of the evidence coming before them what is a fair apportionment of that expenditure. You might say that we drive a hard bargain.

The CHAIRMAN: We probably all have a responsibility for it.

Mr. RYNARD: What is the cost of establishing one of those warning lights or warning signals?

Mr. GORDON: Do you mean a flashing light?

Mr. RYNARD: Yes.

Mr. GORDON: There are several different types. The cost runs about \$12,000.

Mr. RYNARD: On one railroad a man was killed at the age of 22 years. He had an earning power of \$150,000. His father was completely crippled.

Mr. GORDON: I suggest to you that this is unfair special pleading because even if we put in a \$12,000 light, it would not guarantee that a young fellow would not get killed. We have many accidents taking place at protected crossings because people will take chances. They will drive over the crossing after the light has begun to flash and the bell had begun to ring, again and again.

I am not so sure but that if you made an analysis you would find there were almost as many people killed at protected as at unprotected crossings. I do not think it is fair to bring in an emotional suggestion that a young fellow is worth more than \$12,000.

Mr. RYNARD: I am not being emotional in any way. But I would like to know what the results are. You are making the statement or suggestion that these flashing signals are not all right.

Mr. GORDON: They are all right.

Mr. RYNARD: You are suggesting that they might be all right. We think so.

Mr. GORDON: There is only one positive cure, and that is an underpass or an overpass.

Mr. RYNARD: Have you the figures that show where accidents have happened where there were flashing signals?

Mr. GORDON: The Board of Transport Commissioners keep very careful records of accidents. They are the governing body in respect to that particular point.

Mr. RYNARD: I will drop you a line about it.

Mr. GORDON: Or perhaps you had better write to the Board of Transport Commissioners.

Mr. HEES: Might I suggest that Mr. Rynard or anybody else who has a problem about safety crossings or anything like that go to see the Board of Transport Commissioners. The board is located at the Union Station. You should go to see Mr. Sheppard, the chairman, and have a talk with him about it, or with whoever he designates, and find out what the situation is in your particular area. He will be glad to see you.

Every person I have suggested should go to see him has had a good reception.

Mr. RYNARD: I thank the minister for this kind suggestion.

Mr. CREAGHAN: The federal government is now contributing approximately \$15 million towards the grade crossing fund per year. Who does the construction? Is it done by the Canadian National Railways or the Canadian Pacific Railway? Do they get that money and spend it?

Mr. GORDON: We usually install the protection.

Mr. CREAGHAN: Who actually spends or administers that \$15 million federal government grant?

The CHAIRMAN: It is the Board of Transport Commissioners.

Mr. GORDON: In the simple matter of installing lights, we do the work and we recover the sum. Larger projects however, such as an overpass are usually carried out in cooperation with the highway departments. In that case the work is done by either authority as directed by the board. Whoever does the work, will recover the amount that has been agreed upon by the Board of Transport Commissioners.

Mr. GUNDLOCK: Might I have an approximate figure of the usual cost sharing of such lights that have been mentioned?

Mr. GORDON: There is no standard. It depends on the circumstances.

The CHAIRMAN: The municipality pays for part of it and the province pays for part of it.

Mr. GORDON: If you take it on an average for last year, our share of expenditures for the various projects affecting the C.N.R. amounted to 17.3 per cent. 24.7 per cent was the portion paid by the municipalities and the other authorities of like character, and 58 per cent was the contribution from the grade crossing fund. That is the average. The individual items will vary, depending on the circumstances.

Mr. CHEVRIER: How much does that represent in total?

Mr. GORDON: About \$965,000 for grade crossings on the CNR. That was for the year 1957. That was my point a moment ago. The amount we require in our budget is small compared to the \$15 million which has been voted this year.

Mr. CREAGHAN: There is no doubt that the railway was there first and that you own the facts. But you brought in dieselization and you are speeding up your passenger trains all the time.

I think it would be only appropriate, seeing that it is a national company, that you adopt a different outlook and say: because we are putting on this type of equipment, we should be consistent, because our trains are now going faster all the time, and the municipalities are very hard up for funds, so perhaps we should bear a greater share of the cost.

Mr. GORDON: I think there is a great distortion being written into the record.

The Canadian National Railways has no objection whatsoever to protection at each and every crossing. Nothing would suit us better.

The only point is, that of the apportionment of cost.

A court has been set up by parliament known as the Board of Transport Commissioners which sits in judgment on each case. Every party having an interest appears before that court and it is the decision of the court which decides on what shall be a fair apportionment. We only put forward our views.

Mr. CREAGHAN: But the small or rural municipality cannot afford to send a solicitor to appear before the board.

Mr. GORDON: The Board of Transport Commissioners will take that into account. It is their judgment as to what is a fair apportionment.

Mr. HEES: If any member feels that any crossing is improperly guarded in his constituency or in any other constituency, he should go and see Mr. Sheppard and talk it over with him at the Board of Transport Commissioners. If he will go and explain his case to Mr. Sheppard, it is possible that he will get a better deal for a particular crossing where he thinks an injustice has been done.

Mr. GORDON: Or, if members of parliament should feel that the grade crossing fund should be administered on a different basis, then let them change the law and have it done, or make the government do it. You can increase that \$15 million if you want to, and the Board of Transport Commissioners could be given authority to bear 100 per cent of the cost if you so wished it.

The CHAIRMAN: There is a lot in what the president has said. Even before the election I have heard fellows promise to eliminate all level crossings. But following the election, with the long term objective and everything, in order to eliminate them it would only cost \$360 million to put in lights at all the 33,000 crossings. I have heard people talking about it for years.

Mr. CREAGHAN: I know of the case of a retired old lady who was killed in the centre of Moncton.

The CHAIRMAN: There was a fellow in my district who drove right through a gate at Allendale. He smashed the gate, and it cost him something, but he did not get killed. People will drive right through sometimes; and older people will go right through with their automobiles.

Mr. GORDON: I read that there were 76 deaths on the highway just over the week-end.

The CHAIRMAN: If we could get the Board of Transport Commissioners to eliminate all level crossings, I think it would bring better results. And as to having as many lights as possible, we have not to my mind made as comprehensive a job of it as it might be.

Mr. CHEVRIER: I think the president has put his finger on the matter when he gave us the figures that in one year the expenditure amounted to about \$900,000.

My point is that the Board of Transport Commissioners have so many other duties that I do not think they have the necessary time to deal with these applications. They take a great deal of time, particularly those for overpasses and underpasses. There is always a long list of applications before the board, and by the time the board gets to deal with them, these accidents are taking place.

In other words, with the increase of money coming out of the grade crossing fund, I do not think that the money is being spent on the same basis as it is being voted. I may be wrong, but I think there is something to it.

The CHAIRMAN: We have had a pretty good discussion about it, and we know where the responsibility lies, and the probable charges for each.

Now, "Roadway and shop machinery".

Mr. CARTER: Before we leave signals, may I ask if the same system of signals is used on the Newfoundland railway as is used on the mainland?

Mr. GORDON: You are talking about the signals on the railway or about crossing lights?

Mr. CARTER: I mean railway signals.

Mr. GORDON: No. We took over the Newfoundland railway with the signals then in use, but we have not yet included in the Newfoundland district any of the most modern signals such as the centralized traffic control because it has not been found necessary to do it.

We only put centralized traffic control on single track lines where there is a sufficient density of traffic to repay us for the very heavy expenditure. We do not think that C.T.C. is necessary in Newfoundland.

The CHAIRMAN: You pretty nearly have to be an engineer in order to discuss signals.

Mr. GORDON: Our program is not mentioned in the report, but we have made a survey of the entire system to establish just where we could instal C.T.C. in the light of density of traffic in particular areas.

We now have 4,489 miles of track in various divisions across the system where we believe the economics would justify that installation.

Now, if we were to do that all in one fell swoop the cost of that installation would be something in the order of \$40 million. What we are doing, therefore, is bringing forward a certain amount each year, depending on the total amount of our capital budget. We are planning approximately 498 miles for completion in the 1958-59 period, and we are also providing for budget approval for an additional 593 miles.

Mr. CHEVRIER: Could you tell us where this traffic control system is going to be installed?

Mr. GORDON: You will see it goes right across various areas and the ones we are doing in the 498 miles are, Napadogan to Edmunston, New Brunswick, which is 114 miles; Capreol to Foleyet, Ontario, which is 148 miles; Redditt to Transcona, which is near Winnipeg, 121 miles, and Boston Bar to Port Mann, British Columbia, which is a distance of 115 miles, totalling 498 miles, at a cost of \$4,239,000.

Then, we are taking forward into the budget for the following items: Edmunston, New Brunswick, to Monk, Quebec, 124 miles; Coteau, Quebec, to Hawthorne near Ottawa, 71 miles; Hornepayne to Nakina, Ontario, 136 miles; Redditt to Sioux Lookout, Ontario, 123 miles, and Sioux Lookout to Armstrong, Ontario, a distance of 139 miles, making a total of 593 miles.

So that the grand total, as shown in the budget, comes to \$11,205,400, of which \$9,381,000 is represented by our centralized traffic control program.

Mr. CHEVRIER: How much more will have to be done to complete the program?

Mr. GORDON: On the program we have formulated we have a total of 4,489 miles, and we hope to handle this on the basis of past provisions over the next five years.

Perhaps it might be of interest and I think part of the record what our position is in comparison with the Canadian Pacific Railway. They have approximately 3,211 miles of automatic signals. We have a total of 1,500 miles of automatic and 689 miles of centralized traffic control, so if you add the two together we have 2,189 miles of this specialized signalling equipment against 3,211 miles for Canadian Pacific Railway.

Mr. CHEVRIER: Do they have automatic block system or centralized traffic control?

Mr. GORDON: They have automatic block. They have no centralized traffic control.

Mr. CHEVRIER: What is the difference?

Mr. GORDON: You get into a pretty technical description, but we believe the centralized traffic control is the last word in automatic signalling.

The CHAIRMAN: Any other questions on communications?

Mr. GORDON: You see, with centralized traffic control we operate without any train orders whatever; the engineer is guided entirely by the lights he sees in front of him and he can proceed so long as the signal indications permit.

With simple automatic block train orders are required in addition to the signals. Centralized traffic control is much more flexible but also much more costly.

Mr. FISHER: Mr. Gordon, you made some remarks that the centralized traffic control might have some ramifications as far as the number of employees is concerned. If you intend within the next few years to have centralized traffic control from Winnipeg right through to Hornepayne that will be 455 miles—

Mr. GORDON: Yes.

Mr. FISHER: —will you give any sort of prediction as to how that may affect the working forces in the running trades?

Mr. GORDON: I would not like to put it in terms of figures because again you get offsetting figures. Centralized traffic control will require a different type of maintenance workers which we will probably train from our own maintenance forces, but it will be a different type of maintenance than there is now in regard to signals.

Mr. FISHER: Will it eventually have an effect?

Mr. GORDON: Let me deal with the maintenance. We do not think the actual maintenance staff will be much affected in terms of numbers.

Mr. FISHER: What would you say as to the effect of centralized traffic control on the running trades—do you think it would have much effect?

Mr. DINGLE: No, I do not.

Mr. FISHER: You have been experimenting with inter-communication within trains. Is that in these estimates?

Mr. GORDON: No, we have nothing in these items for radio communication.

Mr. FISHER: Has that been successful?

Mr. GORDON: It has been successful in tests. The crews are very anxious to use it but some have requested additional pay if we ask them to use these radio phones. This is one of the items under negotiation at the present time.

The CHAIRMAN: Roadway and shop machinery. I think that is just general. What is the wish there?

Communications. I see that includes the Hudson Bay Railway, which looks \$24 million for Hudson Bay Railway?

Mr. GORDON: No, this is the total for all. It is everything, including Hudson Bay Railway, the grand total for the system.

Mr. CHEVRIER: Is there anything concerning your microwave in communications?

Mr. GORDON: Yes, there is.

Mr. CHEVRIER: Would you tell us about that, please?

Mr. GORDON: The microwave that we have, I believe, is, of course, a re-vote item because it has been in play for some time and covers contracts that we have successfully tendered on for the C.B.C. The microwave system between Quebec and Jonquiere totals \$360,000.

Mr. CHEVRIER: Is there one from Winnipeg to Montreal and Toronto?

Mr. GORDON: No, we have not got the Winnipeg one. Really we have got the French language broadcasts. That is what we have successfully tendered on.

The microwave from Sydney to St. John's is a main item and we have a total re-vote item covering \$8,200,000. We also have included in this item quite a lot of work for the Department of National Defence, which is treated as secret items. We provide the facilities for them, but we do not divulge the nature of the facilities or the locations.

Mr. CHEVRIER: Does that arise out of the construction of submarine cable?

Mr. GORDON: No, I am talking about microwave.

Mr. CHEVRIER: Has it any relationship to the submarine cable which comes out at Sydney and you take the line on to St. John's?

Mr. GORDON: That is not the Department of National Defence; that is our regular service.

Mr. CHEVRIER: For this \$8,200,000?

Mr. GORDON: The \$8,200,000 here is for the microwave arrangement between Sydney and St. John's, which will have a by-product effect on our own communications. Basically it has to do with the Canadian Broadcasting Corporation.

We are continuing the work on our microwave system, which will extend from Sydney to St. John's. That covers that and a lot of additional work and technical work—access roads to the site, land, auxiliary items to this system such as 21 repeater stations along the route. All that contract work has been awarded covering the erection of the towers and so on. The first stage of the project will, we believe, be completed in 1959. The second phase will be the installation of the general communications system. The total of all this is estimated at \$8,200,000.

The CHAIRMAN: Any further questions on communications?

Mr. SMITH (*Simcoe North*): Generally speaking, on this summary I would like to make a suggestion that possibly another year highway crossing protection might be divided into two categories, one, grade separation, and the other lights and other protective devices.

Mr. GORDON: It might be possible to do that.

Mr. SMITH (*Simcoe North*): In the subdivisions of the budget.

Mr. CHEVRIER: You will have to consult your counsel first.

Mr. GORDON: We would be quite willing to do it but we have spent a lot of time trying to simplify this presentation and I think it would be wise to leave it as is. We do not want to lengthen it.

Mr. SMITH (*Simcoe North*): Except I think that was one item we took an unnecessarily long time to pass this morning.

Mr. GORDON: We could put it on the basis that I will endeavour to make a breakdown for the committee, if at all possible.

The CHAIRMAN: Page 4, then.

Mr. CHEVRIER: That first line, Mr. Gordon, is completed, is it, the Hillsport-Manitouwadge?

Mr. GORDON: Yes, the only amount you will notice we have got in there is \$60,000 to complete it.

This section covers all the branch lines that have been authorized by special acts. The bottom part of the report shows you the amounts of expenditures we are making on each line in the 1958 period. The Hillsport-Manitouwadge, \$60,000; then the Beattyville-Chibougamau-St. Felicien is \$7,300,000 this year, and including this it will cost \$10,305,000 to complete that line. Then there is Bartibog-Heath Steele Mines \$200,000, the amount required to complete; then Sipiweski-Thompson, the International Nickel line, \$4½ million will be spent this year, and total cost will be \$5,385,000. The Optic Lake-Chisel Lake line is estimated to cost \$10,165,000 and we expect to do \$2 million of the work this year.

Mr. CHEVRIER: Is it too early to make any comment on how the first half of the Beattyville-Chibougamau line has operated?

Mr. GORDON: From a traffic point only?

Mr. CHEVRIER: Yes.

Mr. GORDON: At the moment and in the last few months the traffic has been disappointing, largely because of the lead-zinc decline generally in regard to exports.

Mr. FISHER: Is it in order for me to ask at this particular point on new lines if you have received any inquiries as to any sort of a line near Nakina to the area of those large low-grade iron ore deposits that are held by Anaconda?

Mr. GORDON: Yes we are studying that now, but we have not got to the stage of anything definite as yet.

Mr. CHAIRMAN: Anything on page 4?

Page 5.

Mr. ROBINSON: Mr. Chairman, I am just wondering if our hotel service is making money?

Mr. FISHER: Could I pass this list down to him?

The CHAIRMAN: Was that not taken up yesterday?

Mr. FISHER: Yes. Here is a summary.

The CHAIRMAN: This is the capital budget for 1958 that we are discussing.

Mr. ROBINSON: I understand we are spending a total of \$11 million on these hotels for 1958, so I would like to find out—

Mr. GORDON: No, the total we are spending in 1958 is \$6,859,000, of which \$5,841,000 is represented by the clean-up work on the Queen Elizabeth. The Queen Elizabeth is well within its budget, I may say. So the other expenditures for all the hotels is only \$1,018,000, of which \$600,000 represents an addition to the Nova Scotian hotel in Halifax.

Mr. CHOWN: May I ask again the cost of the Queen Elizabeth hotel?

Mr. GORDON: The budget item for the building itself is \$20,837,000 and for the furnishings and equipment the budget item is \$4,950,000. We have not finalized all accounts yet, but, as I say, on present expectations we expect to be within that budget.

Mr. ROBINSON: May I ask, Mr. Chairman, in picking out this profit and loss has this capital expenditure been taken account of on that?

Mr. GORDON: I do not know what statement you have, but our figures include interest on capital.

The CHAIRMAN: Any other comments or questions on hotels? Equipment, page 6; any questions on equipment?

Mr. CHEVRIER: Just one question, Mr. Chairman. Of the amount of equipment, for instance, locomotives, passenger cars, sleeping cars, freight cars, special cars, and so on, how much of this goes to the Newfoundland railway?

Mr. GORDON: We have budgeted for delivery in Newfoundland three locomotives, five items of passenger equipment, 130 items of freight equipment, making a grand total of 138 units—\$3,287,000.

Mr. GUNDLOCK: I would like to ask a question about locomotives, the comparison of price between Canadian locomotives and United States locomotives.

The CHAIRMAN: I think you mentioned that yesterday.

Mr. GUNDLOCK: Well, I did not get the answer to that question yesterday, Mr. Chairman.

Mr. GORDON: Let me put it this way: I cannot give you a precise figure because we are not actually getting tenders from American companies for diesel locomotives delivered in Canada. We have bought diesel locomotives over in the United States and delivered in the United States, but I can say that the 22½ per cent duty effectively shuts out the purchase of diesel locomotives from American manufacturers here.

Mr. GUNDLOCK: I realize that, Mr. President, but I would just like for information to have a figure regardless of duty on how much a locomotive costs in the United States and how much it costs in Canada.

Mr. GORDON: This is as near as we have got it and it is a few thousands one way or the other. If you take a typical road switcher unit—that would cost us about \$180,000 in the United States and that same unit will cost us in Canada \$220,000 to \$225,000.

Mr. GUNDLOCK: Thank you very much.

Mr. SMITH (*Simcoe North*): What is the life expectancy of an average road diesel?

Mr. GORDON: We do not know, we have had no experience. It depends on what kind of maintenance. Let me state it this way: you take a steam locomotive, it can last forever because you just keep on rebuilding parts in and it never needs to be retired at all until finally it gets to the point where it is an obsolete model. However, steam locomotives are going out. With diesel locomotives, we have not had sufficient experience with them to decide their life. For depreciation purposes we have estimated a life of 20 to 25 years.

Mr. SMITH (*Simcoe North*): The purpose of that question, Mr. Gordon, was that once your dieselization is completed there will not be a great field for manufacturers of diesel railway locomotives in Canada?

Mr. GORDON: No. They are very well aware of that fact.

The CHAIRMAN: Any more questions on equipment?

Mr. BOURBONNAIS: How many proposed box cars are to be built this year?

Mr. GORDON: You will notice on the page in front there are 2,472 items of freight cars in this budget, which were authorized in prior years.

The new requests included this year cover 200 flat cars for Canadian lines, 100 flat cars for the Grand Trunk Western, 500 gondolas, 900 hoppers, 125 auto transporters, 100 covered hoppers, 100 special pulp wood cars and 455 enterprise hoppers, making a grand total of 2,480 units. We have no box cars on order or intended to be ordered this year.

Mr. BOURBONNAIS: No box cars whatsoever?

Mr. GORDON: We have a surplus of box cars in relation to present-day traffic volume and anticipated volume over the next year.

Mr. BOURBONNAIS: That means the car builders will be out of work for a good period of time?

Mr. GORDON: No. There are orders for other types of freight equipment which they are working on now and which have not been delivered yet. They are working on past orders because you will see in the item there are 2,472 freight cars, to be delivered, which I have touched on, and 225 cars in process of delivery, and on 2,255 to be ordered for delivery in 1959. You are quite right in this sense, that our orders or anticipated orders for the car building companies will not be as large as in the past.

Mr. BOURBONNAIS: How about the Budd car program, is the Canadian National Railways interested in buying them?

Mr. GORDON: Yes, I mentioned that yesterday and in this budget we have a requested authority for 20 self-propelled R.D.C.'s, that is the Budd cars, and we expect 15 to be delivered in this current year.

The CHAIRMAN: Any further questions on equipment?

Mr. CHEVRIER: Would I be impertinent if I asked the position of box cars vis-a-vis the United States and Canada? How many box cars are in the United States and how many here?

Mr. GORDON: I think I have that with me.

Mr. CHEVRIER: Can we get it later?

Mr. GORDON: I have it right here. I have got it for December 1957.

Mr. CHEVRIER: It seems to me it is a quarterly report.

Mr. GORDON: I have got the figures as related to our annual report, but I should have more up-to-date figures.

Mr. CHEVRIER: Could we have it as of December?

Mr. GORDON: Yes, as of December Canadian National Railways cars in the United States were 8,602 boxes, and at that time the United States box cars on Canadian lines totalled 3,254. Do you want me to name all the different classifications?

Mr. CHEVRIER: Oh, no.

Mr. GORDON: The grand total, I think would be of some interest to you. As of December 31 Canadian National Railways cars in the United States of all kinds totalled 10,598, and United States cars operating on Canadian National lines in Canada was 13,558. So we were using a balance of roughly 3,000 more of their cars than they were of ours.

Mr. CHEVRIER: Could I get a later dated figure later?

Mr. GORDON: Mr. Dingle can give it to you in a moment.

Mr. ROBINSON: Mr. Chairman, near the bottom of the page, \$2 million for special experimental equipment. Could we be given an idea of along what lines that experimental work is?

Mr. GORDON: That is an item we put in more or less as a contingency item to enable our research people, if they run into some specially good idea during the year, to start research on it. We have had very great success with our research. For instance, we produced the auto transporter and it is now in use. That was a result of our own experimentation in consultation with industry. We now handle eight automobiles per car as compared with three or four. We have also developed the pulp wood car. Also under consideration is what we call the all-purpose box car, a car with adjustable doors that will open wide enough to take in any kind of traffic, such as grain, lumber and many other kinds of traffic.

We are experimenting with a heated box car that we can use heated in the winter and unheated off-season. We have designed flat cars for truck trailers and we have examined various kinds of metals in trying to develop a light-weight car. Aluminum is a case in point. We have developed a number of uses for aluminum which will fit in and will give us as much stability as steel, but will give us light weight.

Mr. ROBINSON: This automobile car, for what purpose is that?

Mr. GORDON: Transporting new automobiles from the manufacturers to various places in Canada for delivery.

Mr. CHEVRIER: Are there any studies being carried on with reference to locomotives, new coal-burning locomotives?

Mr. GORDON: No, the last research job that I remember was the Mordell job in McGill University on the use of gas turbines, but there has been no progress from a coal-burning point of view. There have been some developments in the United States towards extending that study to oil-burning locomotives.

I can give you those figures now, Mr. Chevrier, as of June 1. We might as well clean it up.

Mr. CHEVRIER: Thank you.

Mr. GORDON: Canadian National cars on United States lines on June 1 totalled 8,330, and United States cars on Canadian lines totalled 7,610.

Mr. DINGLE: And as of July 6 we had a credit balance of 2,694; in other words, United States lines have more Canadian cars than we have American.

Mr. CHEVRIER: To the extent of 2,694?

Mr. DINGLE: Yes.

The CHAIRMAN: Any other questions on equipment?

Investment in affiliated companies.

Mr. HARDIE: On page 7, we have in the past twelve months heard a great deal in regard to a survey being carried out by the Canadian National Railways on the proposed extension from Grimshaw, Alberta, to the south shore of Great Slave lake. I am wondering if the president could give us a preliminary report?

Mr. GORDON: I think the minister can deal with that.

Mr. HEES: We dealt with that yesterday, Mr. Hardie. These reports and surveys are being studied very actively by the government at the present time.

Mr. HARDIE: Has a report of the survey been made to the government?

Mr. HEES: Well, it depends on what you mean by a survey.

Mr. HARDIE: Well, according to the information we have from yourself and the Minister of Northern Affairs an economic survey and a road and route survey took place.

Mr. HEES: That is right. Weighing up one road against the other from the standpoint of cost of construction and what might be expected in the way of a return from carloadings and so on in the future, one route against the other.

Mr. HARDIE: Could not the minister tell us whether or not the railway companies have suggested that they will pay a portion of this rail line? There must be something in their report.

Mr. HEES: That is all in the report that the railways have given to us and we are considering at the present time.

Mr. CHEVRIER: How much will it cost to build the railway, Mr. Minister?

Mr. HEES: I think I would sooner wait until we have considered this matter fully and have come to some conclusion on it.

Mr. CHEVRIER: Well, might I ask this question, will legislation be introduced at this session?

Mr. HEES: That is what was forecast in the speech from the throne.

The CHAIRMAN: I think we are getting a little off centre here. You are dealing now with page 7, investments in affiliated companies.

Mr. HARDIE: I think these questions properly come under this item, and the Northern Alberta railroad.

Mr. GORDON: Do you want me to say anything about it?

Mr. CHEVRIER: I wish you would.

Mr. GORDON: My position is quite clear. It is that at the request of the government, the Canadian Pacific Railway and the Canadian National Railways have made a reconnaissance of the routes of railway into Pine Point, and we have also given collateral information as to the economic possibility of a railway line.

That report has been made to the government and the government is considering it. Therefore there is nothing more I can say about it. The report is in the hands of the government.

Mr. CHEVRIER: Have you considered both lines from Waterways north, and from Grimshaw north, both alternative routes?

Mr. HEES: Yes. Both these routes have been considered.

Mr. FISHER: Would you indicate how satisfactory the cooperative arrangement has been that exists here with the Northern Alberta railways between the two railways?

Mr. GORDON: It is a joint operation, 100 per cent. We have no difficulty at all in reconciling our mutual interest in that particular operation.

Mr. FISHER: So, projecting the thing ahead, it would probably continue to be satisfactory wherever the extension should go?

Mr. GORDON: That is why it would be dangerous to discuss this. There has been no decision made as to how that line is going to be operated.

Mr. CHEVRIER: Can you say whether the Northern Alberta Railways operated jointly by your railway and the Canadian Pacific Railway, will make a capital contribution to the cost of the construction of this line?

Mr. GORDON: The minister can tell you whether we said it or not. It is not for me to say because the report is in the hands of the government and I cannot comment on it.

Mr. HEES: I would not want to make a comment at the present time about any of these matters. They are all under very active consideration by the government at this moment. When we have reached a conclusion, then I shall be glad to make a statement.

The CHAIRMAN: It is pretty hard to expect the minister to tell us.

Mr. HARDIE: That is the same answer I got last November.

Mr. HEES: You are getting closer to the final answer.

The CHAIRMAN: I think it is pretty hard to expect the minister to give an answer about something that is being considered by the cabinet and not concluded yet.

Mr. CHEVRIER: But he does not change his answer anyway.

The CHAIRMAN: He has even more responsibility in that respect than I have to the committee.

Mr. CHEVRIER: Perhaps you could answer the question.

The CHAIRMAN: I would not even if I could.

Mr. HARDIE: From this reconnaissance survey can the railways give a fairly close estimate of the cost of constructing the railway?

Mr. GORDON: I have expressed my view to the minister.

The CHAIRMAN: Is number 7 agreed to?

Agreed.

Number 8, "Capital obligations including equipment principal payments during the year ending December 31, 1958."

Agreed.

"Operating budget, 1958", page 9. Would you like the president to make a short statement?

Mr. GORDON: Again, I would like to make a short statement of introductory comment on our 1958 operating budget.

The operating budget for the C.N.R. is at best an informed guess which actual events can easily alter. The figures involved are so large and the operating margin so narrow that a small percentage variation in any of the numerous revenue or expense items can produce a considerable variation in the predicted net result.

In common with other North American railways the Canadian National has been experiencing a persistent decline in carloadings with a resultant decrease in revenues. This decline began to show in the early summer of 1957 and has persisted through the first half of 1958. Although it is too early to be sure that this decline has been halted, recent figures give some reason to believe that the Canadian National's revenue position will strengthen during the second half of 1958. Consequently, the actual results to date, coupled with our estimate of revenues for the remainder of 1958, lead us to the expectation that if revenues total \$700 million the deficit for the year will be around \$55 million based on freight rates, material prices and wage rates prevailing at the end of 1957. Any increase in the cost factors will inevitably add to the deficit now forecast.

So, with that in mind, you can now examine the detailed figures.

The CHAIRMAN: Are there any further comments?

Mr. CHOWN: Is it possible for you to make a comparison between the net position of the Canadian Pacific Railway in 1957, and in the years 1956 to 1957 indicating to the committee the standard of the private line basis in those two years?

Mr. GORDON: Yes. Yesterday I dealt in some detail with the difference between the Canadian Pacific organization as compared with ourselves, and I pointed out at that time that there were a great number of factors which were not comparable.

One specific factor is that the Canadian Pacific Railway has other income included in their revenues to an extent that we do not have...

Mr. Crump himself pointed out that it amounted to about 60 per cent.

The CHAIRMAN: You were not here when the president explained this yesterday, Mr. Chown.

Mr. CHOWN: I do not want the committee to waste time on something which I can read in the minutes.

The CHAIRMAN: Well, he explained yesterday about the different situation.

Mr. CHOWN: Very well.

Mr. GORDON: I quoted Mr. Crump to this effect. He said that the proportion of total income provided by his railway enterprise dropped from 80 per cent in 1928 to around 60 per cent in 1957. That is what Mr. Crump said about the Canadian Pacific Railway; that only about 60 per cent of their revenue came from railway operations.

So that makes a comparison which would be very difficult for us to establish.

Mr. PASCOE: In your first report you show an operating revenue of \$753.2 million, while on the next page you show it as \$763.2. There must be an extra \$10 million somewhere.

Mr. GORDON: Where do you find \$763.2?

Mr. PASCOE: On the green chart on the next page.

Mr. FISHER: Is it poor proof reading?

Mr. GORDON: No. The chart on the next page includes other income. On page 29 you will find other income of \$10,055,332, which added to Railway Operating Revenues of \$753,165,964 produces the total revenue figure of \$763.2 million.

The CHAIRMAN: That proves that Mr. Pascoe is following very closely what is going on here.

Mr. ROBINSON: Could Mr. Gordon give us an idea of the profit and loss on the passenger service and on the freight service?

The CHAIRMAN: That was dealt with pretty extensively yesterday in this other report. I am sorry that you were not here, Mr. Robinson, but you will find it in the other report which we dealt with yesterday. I think the president can cover it fairly quickly, but I do not want him to repeat so much with all the talking that he has to do.

Mr. GORDON: I am not sure that I gave this figure accurately, as it is a very difficult thing to establish definitely what is the so-called passenger deficit.

If we work according to the I.C.C. formula—that is Inter-State Commerce Commission of the United States—they produce a formula which is a book-keeping formula to arrive at what the cost of passenger service is—if we apply this formula, we would show a deficit in passenger operations of \$90 million last year.

I immediately qualify that figure because I do not agree with the formula. It is a very complex one as it attempts to take account of all the probable overhead expenditures that should be allocated to the operations of the passenger business.

What I am trying to say is that if we went out of the passenger business completely, we would not save \$90 million. We would still require the railroad line, most of the terminal facilities, and so on, for our other rail operations.

However the passenger business uses the railway line, and the terminal facilities, and some share of the cost should be allocated to it.

I repeat, I am not suggesting that we would save \$90 million if we went out of the passenger business. But on the basis of the formula, \$90 million is the figure which confronts us.

Mr. ROBINSON: Could you give us an idea of how much they are gradually cutting the passenger lines of the company?

Mr. GORDON: To the maximum permissible where we are able to justify it in terms of alternative services available to the public.

Mr. ROBINSON: Can it be done to the extent of making passenger lines profitable?

Mr. GORDON: No, I do not think it is possible. I cannot foresee a situation where our passenger business in the overall will operate without some deficit.

Mr. CHEVRIER: It is the same in all countries.

Mr. GORDON: Yes, that is true. It is the same all over.

The CHAIRMAN: If there are no other questions or observations, we are ready for a motion.

Mr. CHEVRIER: May I ask one question in connection with the train which the Canadian National is withdrawing from service between Abitibi and Quebec city? Is the president aware of the facts?

Mr. DINGLE: We have a double service from Montreal to Hervey connecting with a duplicate service from Hervey west. The trains are scheduled about an hour apart, and there is to be a consolidation between the two, caused by lack of patronage, on August 10th.

Mr. CHEVRIER: Has consideration been given to reestablishing it?

Mr. DINGLE: We have some wires on hand about it, but we have not as yet answered them.

Mr. CHEVRIER: Well, will the representations that have been made from the Val D'Or-Rouen area to re-establish this train be considered?

Mr. GORDON: This matter has already gone before the Board of Transport Commissioners.

Mr. DINGLE: Yes, and we intend to make the change on August 10th. We have some representations as I said, but they have not yet been dealt with.

Mr. GORDON: I have not seen them. But I shall see what they are.

Mr. CHEVRIER: Perhaps you might be good enough to reconsider the decision.

Mr. GORDON: I will reconsider it so long as that does not bind me to changing it.

The CHAIRMAN: There is a statement on supplementary depreciation of steam locomotives which we should hear before we pass this report.

Mr. GORDON: Yes, I can deal with it quickly. This is an accounting matter which has given rise to some adjustment in our figures. That is unfortunate, but nevertheless it has arisen. It is a fact that there is a difference of opinion between lawyers and accountants as to the proper way to deal with this entry.

The reasons for including this charge may be summarized as follows:

(a) The Canadian National did not apply depreciation accounting to steam locomotives (or to other equipment) until January 1, 1940.

(b) In the normal course the normal depreciation rates would have been sufficient to care for the write-off of all steam locomotives at their normal retirement dates, i.e. at the time of physical exhaustion.

(c) The dieselization program now adopted will entail retirement of substantially all steam locomotives by the end of 1961. As a consequence the economic life of the 1,444 steam locomotives in service at December 31, 1957, will expire and the locomotives will be retired before their physical life—on which the depreciation rates are based—is exhausted.

(d) The depreciation reserve will, therefore, be deficient by an amount which may be in excess of \$30 million; the exact amount will be governed by retirement dates of the individual units.

(e) The company and its auditor—who is appointed by and reports to Parliament—reached the conclusion that the exercise of prudent business judgment requires the requitment of this deficiency by charges against income. In effect this entails utilizing a part of the savings derived from the new diesel equipment to pay off the steam locomotives replaced thereby.

The amount included in the 1957 accounts is \$7.5 million; an identical amount was included in the original 1958 Capital Budget and Estimated Income Account.

The Government reached the conclusion that:

(a) Existing statutes do not permit it to pay to the Canadian National the portion of its deficit represented by a supplementary charge for depreciation on steam locomotives.

(b) It does not favour inclusion of specific authorization in the 1958 Financing and Guarantee Act.

In the light of these conclusions it was necessary for the Canadian National to take two steps to adapt itself to the government's decision:

(a) Reverse the 1957 charge by credit to operating expenses in 1958.

(b) Amend the 1958 Capital Budget and Estimated Income Account to reverse the 1957 charge and to eliminate the 1958 charge.

A means will have to be devised of disposing of this deficiency without charging it against income. This will probably entail charging the deficiency against shareholders' equity, either currently as each steam locomotive is retired, or in a lump sum when the retirement process is completed.

It is a question of a difference of opinion as to how the entry should be made. We have to be governed by the opinion of the law officers of the crown plus the wishes of the Minister of Finance.

Mr. FISHER: I have one final question in relation to your budget for this year. Would you agree that your central problem is that of the whole wage negotiation situation?

Mr. GORDON: I would say that it was the major problem confronting us now.

I repeat that these estimates take no cognizance at all of any possible wage increase we may be obliged to settle for.

We have stated to the conciliation board that we should not be giving any wage increase. That board has not made its report yet.

The CHAIRMAN: On page 10 you have the capital budget and the operating budget of the Canadian National (West Indies) Steamships.

Mr. CHEVRIER: You cannot deal with that until you have dealt with the report of the Canadian National (West Indies) Steamship lines.

You need a motion to adopt it.

Mr. SMITH (*Simcoe North*): I move that we adopt the report.

Mr. CHEVRIER: I second the motion. I intended to move it.

The CHAIRMAN: It has been moved by Mr. Smith (*Simcoe North*), and seconded by Mr. Chevrier that the Canadian National Railways budget be passed.

Agreed to.

Now, you have the annual report before you of the Canadian National (West Indies) Steamships Limited. Do you wish Mr. Gordon to read it?

Agreed.

ANNUAL REPORT 1957

Operations of Canadian National (West Indies) Steamships, Limited were curtailed during 1957 by a strike called by the Seafarers International Union effective July 4. As a result of the strike, which remained unsettled at the year end, the number of voyages made by company vessels was reduced to 33 from 54 in the previous year. The year's operations produced a deficit of \$648,850, compared with a surplus of \$23,281 in 1956.

The company's financial results are summarized in the following comparative table:

	1957	1956
Operating revenues	\$4,012,162	\$6,125,470
Operating expenses	4,617,526	6,052,570
Net operating deficit or surplus	605,364	72,900
Interest charges	43,486	49,619
Deficit or surplus	\$ 648,850	\$ 23,281

Traffic and Revenues

Operating revenues amounting to \$4,012,162 showed a decline of 34.6%. Freight and charter revenues of \$3,887,740 showed a reduction of similar proportions, while passenger revenues totalled \$99,054, a drop of \$45,269. Miscellaneous revenues decreased by over \$5,000 to \$25,368.

During the six-month period when the ships were in service, the company benefited to some extent from higher rates on cargoes. The rates for south-bound and inter-island traffic increased by approximately 10% and 20% respectively while the rate for sugar showed an average improvement of about 12%. Sugar formed slightly more than half the total tonnage carried on all services.

Operating Expenses

Operating expenses were down \$1,435,044 or 23.7%. The fleet was maintained throughout the strike on a basis which would permit resumption of services on reasonably short notice and as a result considerable expense was incurred without any corresponding revenues. These expenses, which consisted of officers' wages, port and shore expenses and the cost of insurance, fuel and provisions, are recorded as "Lay-up expenses" and amount to \$602,556.

Labour Dispute

The events which culminated in a strike at mid-year began with the submission in September 1956 of demands by the S.I.U. for increases in basic wage and overtime rates, and for certain changes in working conditions. The ensuing negotiations having failed to produce agreement, a federal conciliation officer was appointed, and subsequently a Board of Conciliation and Investigation. The Board's report, issued late in March 1957, was accepted by the Company but rejected by the union as a basis for settlement.

Following the withdrawal from service of all the unlicensed personnel the Company offered a wage increase substantially higher than that recommended by the Conciliation Board. This offer was not accepted within the the specified period.

At the time of submission of this report the service had not been restored.

Capital Expenditures

Capital expenditures of \$64,019 were made during the year to provide additional refrigeration on the five smaller vessels. Installation of this equipment had not been completed at year end.

The Balance Sheet and Income Statement for the year will be found on pages 6 to 8.

BALANCE SHEET AT DECEMBER 31, 1957

ASSETS

CURRENT ASSETS	
Cash.....	\$ 150,956
Accounts receivable.....	92,727
Inventory of supplies.....	73,806
Government of Canada—Due on deficit account..	506,350
	<u>\$ 753,839</u>

INSURANCE INVESTMENT FUND.....	3,297,127
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CAPITAL ASSETS	
Vessels.....	6,660,937
Less recorded depreciation.....	<u>4,068,283</u>
	2,592,654

\$6,643,620

LIABILITIES

CURRENT LIABILITIES	
Accounts payable.....	\$ 111,459
Government of Canada:	
Current accounts.....	\$ 33,409
Loan repayments due 1958.....	<u>250,000</u>
	283,409
Other current liabilities.....	<u>26,625</u>
	\$ 421,493
PROVISION FOR INSURANCE.....	3,297,127

GOVERNMENT OF CANADA LOAN AND ADVANCE	
2½% loan repayable semi-annually maturing September 1, 1963.....	2,000,000
Less repaid.....	<u>575,000</u>
repayments due 1958.....	825,000
	<u>1,175,000</u>
	150,000
	<u>1,325,000</u>

Working capital advance.....	1,325,000
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SHAREHOLDERS' EQUITY

GOVERNMENT OF CANADA	
Capital stock authorized and issued 16,400 shares par value \$100 per share.....	1,640,000
Less discount on capital stock issued.....	<u>40,000</u>
	1,600,000
	<u>\$6,643,620</u>

J. L. TOOLE
Comptroller

AUDITORS' REPORT

To The Honourable The Minister of Transport,
Ottawa, Canada.

We have examined the books and accounts of the Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1957. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the above balance sheet and the related income statement are prepared on a basis consistent with that of the preceding year and are

properly drawn up so as to give a true and fair view of the state of the Corporation's affairs at December 31, 1957, and of the results of operations for the year then ended, according to the best of our information and the explanations given to us, and as shown by the books of the Corporation.

We further report that in our opinion proper books of account have been kept by the Corporation and the transactions of the Corporation that have come under our notice have been within the powers of the Corporation.

We are also submitting a supplementary explanatory report.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

February 25, 1958.

INCOME STATEMENT

OPERATING REVENUES

	1957	1956
Freight and Charter	\$3,887,740	\$5,950,337
Passenger	99,054	144,323
Other	25,368	30,810
Total	4,012,162	6,125,470

OPERATING EXPENSES

Voyage expenses	3,460,164	5,460,598
Lay-up expenses	602,556	15,948
Depreciation on vessels	275,231	275,231
Management and office expenses	210,251	215,523
Pensions	55,000	55,000
Other	14,324	30,270
Total	4,617,526	6,052,570
Net operating deficit or surplus	605,364	72,900
Interest charges	43,486	49,619
Deficit or surplus	\$ 648,850	\$ 23,281

FLEET AT DECEMBER 31, 1957

	Gross tonnage	Dead-weight tonnage
*"Canadian Challenger"....Diesel-powered and refrigerated..	6,745	7,460
*"Canadian Constructor"...Diesel-powered and refrigerated..	6,745	7,460
*"Canadian Cruiser".....Diesel-powered and refrigerated..	6,745	7,460
"Canadian Conqueror"....Refrigerated	2,930	4,532
"Canadian Highlander"....Refrigerated	2,966	4,532
"Canadian Leader".....Refrigerated	2,930	4,532
"Canadian Observer".....Refrigerated	2,967	4,532
"Canadian Victor".....Refrigerated	2,963	4,532
	34,991	45,040

*Each of these motorships has five double and two single staterooms providing first-class accommodations for up to 12 passengers.

This completes the annual report for the operations of the company.

The CHAIRMAN: Now, gentlemen, you have got page 10 here.

Mr. CHEVRIER: Dealing with the report.

The CHAIRMAN: Are the pall bearers here?

Mr. CHEVRIER: May we have a statement from the president about the recent change of the flag from Canadian to Panamanian or Trinidadian registry?

Mr. GORDON: Yes, we reached a point at which no settlement was in sight with the S.I.U., and we determined that if an effort was to be made to restore the service we would have to look elsewhere for crews. We could do that on the basis of changing the flag.

After consultation with the minister an appropriate agreements was reached, and it was permissive. We therefore changed the flag to that of Trinidad for the purpose of engaging, in this case, personnel outside of Canada to operate the vessels really on the basis of making the operational site at Trinidad rather than in Canada.

Mr. CHEVRIER: You recommended to the Minister of Transport that the flag be changed?

Mr. GORDON: I did.

Mr. CHEVRIER: Now you have recommended that the flag be returned to that of Canada.

Mr. GORDON: No, that is not strictly correct. What has developed is this: a decision has been made that having observed what transpired since the strike, and having seen that trade between Canada and the West Indies was adequately cared for by private or other ship operators, there was no need for continuing this service.

Any basis for the restoration of these services would involve a heavy deficit. So all things being considered, the company recommended to the government that the service be abandoned and the ships sold, and the company's assets disposed of.

In considering that recommendation it was decided that it would be better to transfer these ships back to Canadian registry for the purposes of sale, and to leave it up to the purchaser to make his own decision about what flag he would operate under.

Mr. CHEVRIER: It was on your recommendation that the flag was returned to Canada so far as these vessels are concerned.

Mr. GORDON: No.

Mr. CHEVRIER: Did you recommend to the minister that the flag be returned to Canada once again?

Mr. GORDON: No. Our recommendation was to sell the fleet. And since the Minister of Finance is the majority shareholder of the company, we had to get the shareholder's consent before the company could dispose of its assets.

Mr. CHEVRIER: Whose decision was it to return the flag to Canada?

Mr. GORDON: That would be the decision of the shareholder for the purposes of the sale.

Mr. HEES: It was the decision of the government that, having accepted the recommendation of the company that the ships should be sold, it seemed the sensible thing to do was to transfer the ships back to Canadian registry for the purpose of sale; and as Mr. Gordon said, to leave it to the final purchaser to decide how he wished to operate the ships.

Mr. CHEVRIER: What was the purpose of transferring the flag in the first instance?

The CHAIRMAN: Mr. Gordon has explained that.

Mr. GORDON: Yes, I have explained it. When the flag was transferred in the first instance, we were exploring every means whereby we could restore service and operate the ships despite the conflict and this discussion which had arisen with the S.I.U.

But once the S.I.U. had refused our offer, we decided we would have no more dealings with that union.

Mr. CHEVRIER: You also came to the conclusion that because there were other services for the West Indies it would not be profitable to operate the steamships. When did you come to that conclusion?

Mr. GORDON: We could not possibly operate them on the basis of the wages that were being asked by the S.I.U. If the ships had been returned to service, it would have resulted in a deficit in operations.

That decision was made when the matter of continuing the service was discussed. A few years ago we reviewed the service and we were very doubtful about the wisdom of continuing it. At that time consideration was given as to whether we would abandon it.

However a departmental committee was set up by the government, and the whole situation was examined from the standpoint of trade. A recommendation was made, adopted, and announced in the House of Commons, that the Company would continue the service over a period of five years in the hope of demonstrating that it could be operated profitably.

But then we got into this labour dispute.

Mr. CHEVRIER: How long did you operate under that five year period?

Mr. GORDON: Two years, and we had shown a small profit in the meantime. Then we were faced with these unreasonable demands, and on the basis of those demands we advised the government, and we satisfied ourselves that we could not operate that service on a profitable basis. It would mean a subsidy to be met by the Canadian taxpayers.

In the first instance the government wanted us to explore every possibility of continuing this service so we said "very well", if we should transfer the flag and hire crew personnel outside of Canada and pay the wages that our competitors pay, then there was a slight possibility that we could operate it at or near a break-even point. And that is why we transferred the flag.

Mr. CHEVRIER: Is your competitor under the S.I.U.?

Mr. GORDON: No. There are a number of foreign flag boats of which the Saguenay Terminals is the best known, but there are also a lot of other ships in the trade which are not under the Canadian flag.

Mr. CHEVRIER: You have not sold the ships?

Mr. GORDON: Not yet, they have been offered by tender and we are now in the process of examining the bids that have been received.

Mr. CHEVRIER: I have a complaint about the manner in which the ships have been put up for sale in that, contrary to the usual practice, there is no expiry or closing date on the sale of the ships. I have a notice that appeared in the *Montreal Gazette* and it just says:

The owners reserve the right to sell vessels at any time a satisfactory offer is received.

Why was that practice adopted?

Mr. GORDON: The sale of a fleet of ships is a completely different matter than selling doughnuts and milk. First of all, the offer is circulated through the shipping trade all over the world.

Now, in order to arrive at what seemed to us to be the best way of extracting all the money out of it that we could, we had to make them available on a basis of what somebody could offer for one ship or four ships or three ships, or for the whole fleet. We wanted to give everybody an opportunity to bid as suited their circumstances. There is no handicap in that to anybody because they are all free to bid as they wish. We did not want to put a closing date in for the reason that, as of now, the market for ships is seriously depressed and we had no way of knowing whether we could sell them within a matter of weeks or a month or three months. Therefore we wanted to offer ample opportunity for all interests who wished to bid to get a chance to get in their explorations and bids.

Mr. CHEVRIER: It is exactly those groups who are interested in purchasing ships that complain about the fact that there is a non-closing date. If you would just allow me to put on the record what their complaint is. They object to the lack of a closing date for the receipt of the tenders. They say it places them in an unfair position as it permits the Canadian National Steamships to negotiate what amounts to a private sale at any time. They maintain that this does not appear to be right from the fact that this is public property which should be disposed of in this manner, and they say if there was a closing date they would be in a better position to submit a bid. They say if they submitted a bid in those circumstances it is fair and reasonable because of the knowledge they have of the value of these ships they would have no way of knowing whether their tender had been accepted because of the lack of the closing date. They also stated if an unsatisfactory bid is received new tenders could easily be called for at a later date, and I am wondering why—I do not know a great deal about ships, but it strikes me that perhaps consideration might have been given to the position of a closing date.

The CHAIRMAN: Do you think we would get more that way?

Mr. GORDON: I would make two comments on that, Mr. Chairman. The first, if the complainants that you are referring to are seriously interested in the ships it is surprising to me that they have not made any representations to us about the question of a closing date. We have had no complaint along that line.

Mr. CHEVRIER: He has definitely.

Mr. GORDON: Well, I would like to know on what basis he has made it.

The second thing is, whatever his argument may be on that point it is from the point of view of the buyer and quite consciously we have adopted the method of sale which we hope will get for us the largest price we possibly can. The sale of ships is very, very tricky business. It took us over a year to dispose of the last ship we had for sale and I do not know when we will dispose of these. We are hoping in the next week or ten days that two or three bids which are of interest will have reached the point where we are able to dispose of them.

I do not want to speak disparagingly, but there are all sorts of tricks of the trade. It is a very complex business. For instance, you sell ships "as is, and where is", or you will get a bid where they insist on dry-docking. If we get into a position of dry-docking the vessels for examination the purchaser can raise all kinds of questions and cause all kinds of complications. So it is a difficult sale and I can only summarize it by saying that in my opinion a serious purchaser is not handicapped by the method which we have adopted.

Mr. CHEVRIER: Let me ask this final question then: has it not been the custom to give a closing date on sales of ships generally?

Mr. GORDON: Well, I would not like to say...

Mr. CHEVRIER: I am informed that it has and I thought that perhaps you knew that such had been the practice.

The CHAIRMAN: Well, are there any other questions?

Mr. GORDON: I would not like to make a statement here. We have pretty good information as to what transpires in the sale of ships elsewhere but I would rather not make the statement until I am sure of my facts. I believe there have been ships sold without any advertisement at all.

Mr. CHEVRIER: Not by any crown company.

Mr. GORDON: I wonder. I will not make that statement.

Mr. SMITH (*Simcoe North*): Have any firm bids been received?

Mr. GORDON: Yes. We have not received bids that could be regarded at all as enthusiastic bids. As I say it is a difficult sale.

The CHAIRMAN: Well, gentlemen, it is 12 o'clock. Is it your wish to complete this one item? Are you satisfied, Mr. Chevrier to complete it?

Mr. CHEVRIER: Yes, go ahead.

Mr. FISHER: One question: is the S.I.U. the one that has Mr. Banks at the head of it?

Mr. GORDON: Yes.

Mr. FISHER: Then he is the one that is having trouble with the Canadian Pacific Railway on the west coast.

Mr. GORDON: Yes.

Mr. FISHER: I have heard it said there is a certain poetic justice in this situation since Mr. Banks was brought to this country by the employer organizations.

Did the Canadian National Railways have anything to do with bringing him here to the organization?

Mr. GORDON: Back in 1948 and 1949—this is before my time and I am talking from hearsay—there was a dispute of this very company in which it was alleged that the then existing union was heavily infiltrated by communists and there was a strong communist influence in that union. There came into being a jurisdictional dispute in which Mr. Banks, dealing as the head of the S.I.U. made a big bid to take over the union. Now, when you say he was brought in, I do not think that is the case. He came in. But there is no doubt about it in the course of it all, he formed a union which made an agreement with the company at that time and the other union lost the right of representing the employees.

The CHAIRMAN: Are there any other questions?

Could we have a motion for the adoption.

Moved by Mr. Martini, seconded by Mr. Chown that the capital budget and operating budget of the Canadian National (West Indies) Steamships Limited be passed. What is your pleasure?

We pass them both, the annula report and budget.

Mr. CHEVRIER: No, they are passed separately, Mr. Chairman.

The CHAIRMAN: Well, I had a motion on it, Mr. Chevrier.

Mr. CHEVRIER: No, you did not have a motion from me on this. You had a motion from Mr. Martini to approve the annual report.

Mr. GORDON: This annual report of the Canadian National (West Indies) Steamships should be moved and seconded and passed and then the capital budget of the Canadian National (West Indies) Steamships should be moved and passed and this winds up the capital budget, Mr. Chairman, more or less.

The CHAIRMAN: Moved by Mr. Martini then, and seconded by Mr. Chown that the 1957 annual report pass. What is your pleasure?

Agreed to.

Now, we do not have a motion on the budget.

Moved by Mr. Smith...

Mr. CHEVRIER: May I ask the minister one question before this budget passes. Has any consideration been given to the purchase of one or two of these Canadian National ships by the government, to be given to the British Federation for purposes of control by them?

Mr. HEES: It is our understanding that these ships are not what is required or wanted by the West Indies Federation. It is a much smaller ship.

Mr. CHEVRIER: I fail to understand that because these ships operated, did they not, when they were in operation, between some of the islands of the West Indies?

Mr. GORDON: That is quite right, but the requirement of the West Indies is what they call inter-island trade and these ships are not suitable for the type of inter-island trade.

These ships were moved from port to port, but not in the kind of traffic that the West Indies is interested in.

Mr. CHEVRIER: Well, these ships operate from island to island, do they not?

Mr. GORDON: Not in this kind of trade.

Mr. CHEVRIER: Well, I am asking you if the ships operated from island to island. I did not say "in this kind of trade", I simply asked the question if these ships of the Canadian National (West Indies) Steamships operated from one island to another of the British Federation.

Mr. GORDON: They landed at various ports throughout the islands, yes. I have not got a list of the ports. For instance, we called at Trinidad and Nassau and we called at the Leeward islands, Kingston Jamaica, and so on. We called at those various points, but the trade which the Federation of the West Indies is interested in is a type of what might be called coastal trade between smaller ports among the islands from which these ships would not be suitable.

Mr. CHEVRIER: What does the dry cargo passenger vessel cost of the Canadian National?

Mr. GORDON: You want the cost of the individual vessel?

Mr. CHEVRIER: Yes, I want to compare it with the cost of the ship which is being provided to the British West Indies. Perhaps we could have it looked up in the estimates of the minister.

Mr. HEES: I have not got it here.

Mr. CHEVRIER: Do you not know what the cost of the new ship is going to be—around \$2 million, is it not?

Mr. HEES: Something in that nature, yes, I believe.

Mr. GORDON: That particular vessel?

Mr. CHEVRIER: The most up-to-date one.

Mr. GORDON: Dry cargo ships here are all of the same type and they are all in our books at a cost of \$546,154. That is the value at which each is recorded in our books. They are all at the same figure.

Mr. CHEVRIER: Well, I thought the minister said the ship wanted was a much smaller ship than this?

Mr. GORDON: That is right.

Mr. CHEVRIER: And I took it to mean much less costly?

Mr. GORDON: The diesel vessels cost \$1,288,000.

Mr. CHEVRIER: The diesel vessel is also a passenger vessel?

Mr. GORDON: Yes, it will carry twelve passengers.

Mr. CHEVRIER: That is what prompted my question in the first place, that it was going to cost the government money to provide the ship—

Mr. HEES: I am not sure of the figure, but I can check it up very easily.

Mr. CHEVRIER: It seemed to me that perhaps one or other of these vessels of the Canadian National Steamships could serve the purpose. You tell me it could not.

The CHAIRMAN: Are there any other questions? If not, there is a motion by Mr. Smith (Simcoe North), seconded by Mr. Bourbonnais, that the capital and operating budget of the Canadian National (West Indies) Steamships, Limited, pass. What is your wish?

Agreed to.

The CHAIRMAN: Now, gentlemen, we are a few minutes from the 12 o'clock deadline and we did have the securities trust and the auditors' report to deal with. Is it your wish that we might sit a few minutes longer and see by 12.30 if we can conclude the securities trust? It is only a matter of form, I think.

Mr. GORDON: The securities trust is a pure formality.

Mr. CHEVRIER: What did you want to deal with first—the annual report of the auditors?

The CHAIRMAN: The securities trust. It is just a matter of form.

Mr. CHEVRIER: Where is it, Mr. Chairman?

The CHAIRMAN: I think the securities trust is pretty much a matter of form.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

MONTREAL, 3rd. March, 1958.

The Honourable George Hees, M.P.,
Minister of Transport,
Ottawa.

Sir,

In conformity with Section 17 of The Canadian National Railways Capital Revision Act, 1952 the Trustees of The Canadian National Railways Securities Trust submit the following report of the transactions for the calendar year 1957.

Application was made to the Governor in Council for the release of \$864,000 principal amount Canadian National Railway Company 4½% Thirty Year Guaranteed Bonds, due July 1, 1957 in accordance with resolution dated September 26, 1957 and approval was so granted under authority of Order-in-Council P.C. 1957—1487 dated November 18, 1957, which securities will be cancelled and cremated.

The Trustees present herewith the Balance Sheet at 31st December, 1957.

D. GORDON,
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
BALANCE SHEET AT 31st, DECEMBER, 1957

ASSETS

Claims for Principal of Loans—	
Canadian Northern Railway.....	\$ 312,334,805 10
Grand Trunk Railway.....	118,582,182 33
Grand Trunk Pacific Railway.....	116,006,599 08
Canadian National Railway Company...	96,936,971 75
	<u>643,860,558 26</u>
Claims for Interest on Loans—	
Canadian Northern Railway.....	\$ 309,702,897 65
Grand Trunk Railway.....	103,250,802 95
Grand Trunk Pacific Railway.....	107,326,622 84
Canadian National Railway Company....	54,501,313 57
	<u>574,781,637 01</u>
Transactions of Canadian National Railway System from 1st, January, 1937, to 31st. December, 1951, affecting the book value of the capital stock of the Securities Trust.....	108,480,697 14

Securities Held—

Collateral Securities—Schedule A.1.....	
Other Securities —Schedule A.2.....	
	<u>\$ 1,327,122,892.41</u>

LIABILITIES

Capital Stock Owned by Canadian National Railway Com- pany—5,000,000 shares of no par value capital stock:—	
Stated value at 1st, January, 1952.....	\$ 378,518,135 02

Amount by which the book value of claims and interest there-
on exceeded the initial stated value as of 1st, January, 1937.

	948,604,757 39
	<u>\$ 1,327,122,892 41</u>

J. L. TOOLE,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended 31st, December, 1957.

The Collateral and Other Securities, as set out in Schedules A.1 and A.2 attached hereto, were verified by examination or by certificates from the depositaries.
In our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Trust's affairs at 31st, December, 1957,
in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1952.

Dated at Montreal,
3rd March, 1958

GEORGE A. TOUCHE & CO.
Chartered Accountants.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

Loans Outstanding

		Notes and Collateral Held	
Canadian Northern Railway:		None. Charge is on premises mortgaged October 4, 1911.	
3½% Loan, Chapter 6, 1911.....	\$ 2,396,099 68	None.	
4% Loan, Chapter 20, 1914.....	5,294,000 02	None.	
5½% Loan, Chapter 4, 1915.....	10,000,000 00	None.	
6½% Loan, Chapter 29, 1916.....	15,000,000 00	Mortgages dated June 23 and June 26, 1916.	
*6% Loan, Chapter 24, 1917.....	25,000,000 00	6½% Demand Notes.....	\$ 33,012,414 32
*6% Loan, Vote 110, 1918.....	25,000,000 00	6½% Demand Notes.....	27,203,003 65
*6% Loan, Vote 108, 1919.....	35,000,000 00	6½% Demand Notes.....	40,031,122 27
*6% Loan, Vote 127, 1920.....	48,611,077 00	6½% Demand Notes.....	53,008,779 65
*6% Loan, Vote 126, 1921.....	44,419,866 42	6½% Demand Notes.....	50,259,512 47
*6% Loan, Vote 136, 1922.....	42,800,000 00	6½% Demand Notes.....	46,691,634 60
6% Loan, War Measures Act, 1918.....	1,887,821 16	6½% Demand Notes.....	5,700,000 00
*6% Equipment Loan, Chapter 38, 1918.....	56,926,000 82	3½% Debenture Stocks.....	5,109,999 99
*Mortgage covering loans above.....		6½% Demand Notes.....	56,858,496 44
Total Canadian Northern.....	\$ 312,334,805 10	Mortgage dated November 16, 1917.....	
Grand Trunk Railway:			
6% Loan, Vote 478, 1920.....	\$ 25,000,000 00	6½% Demand Notes.....	\$ 25,479,226 97
6% Loan, Vote 126, 1921.....	55,293,435 18	6½% Demand Notes.....	56,646,816 12
6% Loan, Vote 137, 1922.....	23,288,747 15	6½% Demand Notes.....	23,288,747 15
4% Loan to G.T. Pacific, Chapter 23, 1913, guaranteed by Grand Trunk.....	15,000,000 00	4% Demand Note.....	15,000,000 00
Total Grand Trunk.....	\$ 118,582,182 33	4% G.T.P. Debentures.....	15,000,000 00
Grand Trunk Pacific Railway:			
3% Bonds, Chapter 24, 1913.....	\$ 33,048,000 00	3% 1st. Mortgage Bonds.....	\$ 33,048,000 00
6% Loan, Chapter 4, 1915.....	6,000,000 00	4% Sterling Bonds.....	7,499,952 00
6% Loan, Vote 441, 1916.....	7,081,783 45	Mortgage, June 28, 1916.....	
6% Loan, Vote 444, 1917.....	5,038,053 72	Mortgage, October 18, 1917.....	
6% Loan, Vote 110, 1918.....	7,471,399 93	Mortgage, October 18, 1917.....	
Receiver's Advances, P.C. 635, March 26, 1919.....	45,764,162 35	Receivers' Certificates.....	53,339,162 74
Interest guaranteed by Govt. of Canada.....	8,704,662 65	Cremation Certificates, coupons destroyed.....	8,698,170 42
Interest guaranteed by Provinces of Alberta and Saskatchewan.....	2,898,536 98	Cremation Certificates, coupons destroyed.....	2,925,723 88
Total Grand Trunk Pacific.....	\$ 116,006,599 08	forward	

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

SCHEDULE A.1—Concluded

Loans Outstanding		Notes and Collateral Held	
CANADIAN NATIONAL RAILWAY COMPANY:			
6% Loan, Vote 139, 1923.....	\$ 24,550,000 00	{6% Canadian Northern Demand Note.....	\$ 12,655,019 57
		{G.T.P. Receiver's Certificates.....	3,313,530 01
		{G.T.P. Interest Coupons (Cremation Certificates).....	1,530,831 96
5% Loan, Vote 137, 1924.....	10,000,000 00	{5% Canadian Northern Demand Note.....	1,318,315 86
		{G.T.P. Receiver's Certificates.....	4,691,173 58
		{G.T.P. Interest Coupons (Cremation Certificates).....	1,530,822 24
5% Loan, Vote 377, 1925.....	10,000,000 00	{5% Canadian Northern Demand Note.....	9,496,718 21
		{G.T.P. Receiver's Certificates.....	1,422,425 17
		{G.T.P. Interest Coupons (Cremation Certificates).....	Cr.
5% Loan, Vote 372, 1926.....	10,000,000 00	{5% Canadian Northern Demand Note.....	9,062,624 30
		{G.T.P. Receiver's Certificates.....	364,898 78
		{G.T.P. Interest Coupons (Cremation Certificates).....	Cr.
5% Loan, Vote 336, 1929.....	2,932,652 91	{5% Canadian National Railway Company Demand Notes...}	2,932,652 91
5% and 5½% Loans, Chapter 22, 1931.....	29,910,400 85	{5% and 5½ Canadian National Railway Company Demand Notes...}	29,910,400 85
5½% Loans, Chapter 6, 1932.....	11,210,815 56	{5½% Canadian National Railway Company Demand Notes...}	11,210,815 56

Less: adjustment authorized by the Capital Revision Act, 1937.....

Total Canadian National Railway Company.....

Total Loans.....

\$ 96,936,971 75

\$ 643,860,558 26

SCHEDULE A.2

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Securities transferred from the Government of Canada to the Securities Trust pursuant to the provisions of
The Canadian National Railways Capital Revision Act, 1952

Description of Issue	Amount	
	Sterling Currency	Dollar Currency
Canadian National Rly. Co. 4½% Thirty Year Guaranteed Bonds, due July 1, 1957.....		\$ 864,000.00
Canadian Northern Alberta Rly. Co. 3½% First Mortgage Debenture Stock, due May 4, 1960.....	534,097	
Canadian Northern Ontario Rly. Co. 3½% First Mortgage Debenture Stock, due May 19, 1961.....	6,294,345	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958.....	359,869	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958.....		508,666.00
Grand Trunk Pacific Rly. Co. 3% First Mortgage Sterling Bonds, due Jan. 1, 1962.....	1,754,500	
Grand Trunk Pacific Rly. Co. 4% Sterling Bonds, due Jan. 1, 1962.....	90,900	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950.....	649,500	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950.....		1,293,500.00

Mr. CHEVRIER: Well, this is purely a matter of bookkeeping. I do not see that there is anything objectionable about it.

The CHAIRMAN: Moved by Mr. Kennedy and seconded by Mr. Tasse that the securities trust report pass.

Agreed to.

The CHAIRMAN: Now, the next item is the auditors' report, and it is made up by George A. Touche and Company, represented here today by Mr. J. A. Wilson, assisted by Mr. Beech. You have that auditors' report in front of you.

GEORGE A. TOUCHE & Co.
CHARTERED ACCOUNTANTS
410 St. Nicholas Street
Montreal

MARCH 4, 1958.

The Honourable,
The Minister of Transport,
Ottawa, Canada.

Sir,

In accordance with the requirements of the Canadian National Railways Act we report, through you, to Parliament on our audit of the accounts of the Canadian National Railway System for the year ended December 31, 1957.

The following report appears at the foot of the balance sheet which together with the related statement of income is included in the annual report of the System.

We have examined the books and accounts of the Canadian National Railway System for the year ended December 31, 1957. Our examination included a general review of accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the above consolidated balance sheet and the related consolidated income statement are prepared on a basis consistent with that of the preceding year except for additional provision for depreciation referred to in Note 1 which we approve and subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting referred to in Note 1, are properly drawn up so as to give a true and fair view of the state of the System's affairs at December 31, 1957 and of the results of operations for the year then ended, according to the best of our information and the explanations given to us and as shown by the books of the System.

We further report in our opinion proper books of account have been kept by the System and the transactions of the System that have come under our notice have been within the powers of the System.

We are also submitting a supplementary explanatory report. This is the aforementioned supplementary explanatory report.

CONSOLIDATED BALANCE SHEET

Temporary Cash Investments

These investments are carried at a total cost of \$6.4 million and consist of System securities aggregating \$5.5 million and other securities issued or guaranteed by the Government of Canada or Provincial Governments. At December 31, 1957, the approximate market value of all these investments was \$6.0 million being 6 per cent below cost.

Material and Supplies

A physical inventory of material and supplies was taken by system personnel as at September 30, 1957, and the inventory records have been adjusted for overages and shortages disclosed by this count. Material and supplies at December 31, 1957 exceeded that of December 31, 1956 by approximately \$8.8 million. In addition to general price increases, the major factors accounting for this increase were:

Stores department increase.....\$ 2.4 million

The normal issues of stores items to the shops were severely curtailed during the latter part of the year as a result of a decline in activity. However, the stores department was still receiving new materials which had been previously ordered.

Roadway materials, rail and ties increase\$12.3 million

In the latter part of 1957 the Railway received materials with respect to 1958 requirements which customarily would have arrived at a later date.

Fuel stocks decrease(\$7.3 million)

Coal supplies have decreased by reason of the Railway's dieselization programme and the lead time on purchasing fuel oil is considerably less than that for coal stocks.

Insurance Fund

The investments of the fund comprise Government bonds and similar securities. Based on market quotations at December 31, 1957, the value of these securities was less than their cost by approximately \$1.4 million or 10 per cent. However, no loss will be sustained unless it is necessary to sell the securities prior to maturity.

Investments in Affiliated Companies not Consolidated

These investments are represented by capital stocks, bonds and advances to companies affiliated with but not forming part of the National System. Except for Trans-Canada Air Lines, they do not represent voting control and accordingly the companies are not treated as units of the System. Such investments have been made in association with other railways primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, at par which is less than the special valuations approved by the Interstate Commerce Commission.

We have carried out an audit of Trans-Canada Air Lines upon which we have reported separately. The amounts of the other companies have in the majority of instances been audited by joint committees composed of system accountants.

Property Investment

Additions to properties and equipment during the year, acquired in accordance with the approved Capital Budget, amounted to \$252.3 million. The property accounts of the Buffalo and Lake Huron Railway Company, were brought into the consolidated property accounts at December 31, 1957 accounting for an additional \$3.1 million increase in the property account.

Note 1 of the notes to financial statements deals with Property Investment and states, in part, as follows:

Depreciation on Canadian Lines: Depreciation accounting as adopted for equipment in 1940, for hotel properties in 1954 and for track and road structures and all other physical properties except land in 1956

has been continued in 1957. The depreciation rates used are based on the estimated service life of the properties but do not provide for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force, nor for extraordinary obsolescence resulting from the introduction of more efficient equipment. In recognition of the obsolescence now occurring with steam locomotives, supplementary depreciation amounting to \$7,500,000 has been charged to operating expenses this year to provide in part for the deficiency in the depreciation reserves which will arise from the early retirement of steam locomotives and their replacement by diesel power.

In our report for the previous year, dated March 5, 1957, we referred to the anticipated deficiency in accumulated depreciation and we expressed the opinion that consideration should be given to providing out of income for the deficiency with respect to steam locomotives. We also noted that the railway's officers had been examining this situation with the object of devising remedial action which would be consistent with good accounting practice, acceptable to the Board of Transport Commissioners and compatible with the governing statutes. In our opinion the action taken by the Railway conforms with the foregoing requirements. We have been informed that further amounts will be provided in future years, the amount in each year being determined after considering, among other things, the influence of the dieselization programme which is related to the obsolescence of steam locomotives.

Other Assets and Deferred Charges

Included under the heading "Other investments" are deferred amounts receivable with respect to the disposal of certain properties, Government of Canada and System bonds valued at cost, and unlisted securities held primarily for purposes of traffic benefit valued at or below cost.

"Other assets" consist mainly of deferred receivables under agreement.

"Deferred charges" include the unamortized cost of opening ballast pits which will be written off on the basis of yardage used; the estimated salvage value of non-perishable material allotted temporarily to construction projects; miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Other Liabilities and Deferred Credits

The principal items included under the above heading are the outstanding capital value of the workmen's compensation awards by the Provinces of Ontario and Quebec; percentages retained from contractors pending completion of work in progress; deferred payments of principal and interest under agreement; estimated liability for overcharge claims; estimated portion of prepaid revenues on freight in transit; liability to former members of Grand Trunk Railway Insurance and Provident Society, and miscellaneous items not otherwise provided for or which cannot be disposed of until additional information is received.

Long Term Debt

System securities of a par value of \$73.3 million held by the public were repaid during the year. Additional funds of \$270.3 million were received from the Government of Canada as temporary loans to finance public debt repayments, capital expenditures and additional advances to Trans-Canada Air Lines.

Subsequent to December 31, 1957, the Railway has sold to the public, through the Bank of Canada, \$300 million twenty-three year 4 per cent bonds, the proceeds of which have been applied to the repayment of temporary loans received from the Government of Canada.

Shareholders' Equity

In compliance with Section 6 of the Canadian National Railways Capital Revision Act, the Minister of Finance purchased during the year from the Company at par 22,750,879 four per cent preferred shares of one dollar par value equal to three per cent of the gross operating revenues of the System for the twelve months ended November 30, 1957. An additional, 1,737,359 preferred shares of an aggregate par value equivalent to three per cent of the gross revenues for the month of December were purchased in January, 1958.

CONSOLIDATED INCOME STATEMENT

Net income for the year decreased \$55.7 million from that of the previous year. In round amounts this is explained as follows:

	Million
Decrease in operating revenues resulting from a decline in the volume of traffic partly offset by rate increases and an improvement in traffic mix	\$21.6
Increased road and equipment maintenance as a result of expansion of road maintenance work, principally on the Western Region, and also as a result of increased wage and material costs	18.3
Increased depreciation charges resulting from capital additions and \$7.5 million special depreciation on steam locomotives mentioned in Note 1 to the financial statements	14.8
Decrease in transportation expense due principally to dieselization and lower volume of traffic	(3.8)
Increase in other operating expenses, net	2.0
Decrease in taxes and rents due principally to a reduction in equipment rentals as a result of lower traffic and the increased ownership of freight cars	(4.1)
Decrease in other income, net	1.7
Increase in fixed charges due principally to interest on additional temporary loans	5.2
Decrease in net income	\$55.7

The deficit for the year of \$29.6 million is recoverable from the Government of Canada. At December 31, 1957, 13.0 million had been received on account and the balance due of \$16.6 million is shown on the balance sheet as an amount receivable.

GENERAL

Corporate Organization

During the year The Dalhousie Navigation Company, Limited was amalgamated with the Canadian National Railway Company. This elimination was part of the continuing programme of simplifying the corporate structure.

Primarily to effect a reduction in rent for leased roads the System acquired the outstanding stock of the Buffalo and Lake Huron Railway Company at a cost of \$1.1 million.

Accounting Methods

Improvements are being made constantly in all areas of accounting and control as a result of the continuous review of clerical and accounting procedures being carried out. The principles of integrated data processing have been successfully applied in appropriate areas and, as part of this development, an electronic computer centre was opened in Montreal during the year.

We wish to record our appreciation of the excellent co-operation and assistance received from the officers and employees of the System during our audit.

Yours faithfully,
GEORGE A. TOUCHE & CO.

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS
410 St. Nicholas Street
Montreal

The Honourable,
The Minister of Transport,
Ottawa, Canada.

Sir,

We report, through you, to Parliament on our audit of the accounts of Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1957.

The following report appears at the foot of the balance sheet which, with the related income statement, is included in the annual report of the Corporation.

"We have examined the books and accounts of the Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1957. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the above balance sheet and the related income statements are prepared on a basis consistent with that of the preceding year and are properly drawn up so as to give a true and fair view of the state of the Corporation's affairs at December 31, 1957, and of the results of operations for the year then ended, according to the best of our information and the explanations given to us, and as shown by the books of the Corporation.

We further report that in our opinion proper books of account have been kept by the Corporation and the transactions of the Corporation that have come under our notice have been within the powers of the Corporation.

We are also submitting a supplementary explanatory report."

This is the abovementioned supplementary explanatory report.

BALANCE SHEET

Insurance Investment Fund

The investments of the fund comprise Government bonds and similar securities. Based on market quotations at December 31, 1957, the value of these securities was less than their cost by approximately \$192,000 or 6 per cent. However, no loss will be sustained unless it is necessary to sell the securities prior to maturity.

Capital Assets

Vessels are carried at cost less accumulated depreciation. During the year expenditures totalling \$64,019 were made to provide for additional refrigerated cargo space on the five steamships. This work was not continued after July 4, 1957 when the vessels ceased operation due to labour difficulties.

Provision for depreciation during the year was made on a basis consistent with that of the preceding year, using the following rates:

Three diesel powered vessels
Five steamships
5 per cent on cost
3 per cent on cost

We are informed that all equipment has been maintained in efficient operating condition during the year.

INCOME STATEMENT

The suspension of service as of July 4 has caused a substantial loss of revenues. Lay-up expenses, which include costs not directly attributable to revenue producing voyages, have increased \$586,608 during 1957. The greater part of this increase represents expenses of an operating nature which would have been related to revenues under normal conditions. The deficit for the year was \$648,850 of which at December 31 \$142,500 had been recovered from the Government of Canada and the balance of \$506,350 appears as an account receivable on the balance sheet.

GENERAL

The following summary indicates how available funds have been utilized. Working Capital at December 31, 1956 \$ 371,134

Additional funds provided:

Amount recoverable from the Government of Canada on account of the deficit	\$ 648,850
Provision for depreciation, which does not involve the outlay of funds	275,231

924,081

\$1,295,215

Funds applied:

Deficit for the year	\$ 648,850
Reduction in Government of Canada loan	250,000
Capital expenditure	64,019

962,869

Working Capital at December 31, 1957

\$ 332,346

Consistent with its established practice, the Corporation has not made transfers or allocations of funds for pensions conditionally accruing in respect of employees now in service.

Future operations will be seriously affected by the prolonged inactivity of the service, although to what extent we are not in a position to assess.

We wish to express our appreciation of the excellent co-operation and assistance received from officers and employees of the Corporation during our audit.

Yours faithfully

GEORGE A. TOUCHE & CO.

The CHAIRMAN: Do you wish to hear the auditors at the present time? Are there any questions on the auditors' report?

Mr. SMITH (*Simcoe North*): Moved by Mr. Martini and seconded by myself that the report be adopted.

The CHAIRMAN: Moved by Mr. Martini and seconded by Mr. Smith (*Simcoe North*) that the auditors' report be accepted and passed.

Agreed to.

Mr. John A. WILSON, F.C.A. (*George A. Touche and Co.*): Mr. Chairman, does that mean that the auditors' report will be passed without further comment, because if so there is one comment I would like to make?

The CHAIRMAN: Very well. Would you care to come around here?

Mr. WILSON: Excuse me, Mr. Chairman, I did not want to interrupt the proceedings, but in view of the statement the president made this morning in respect of depreciation and the fact that we were referred to in connection with that particular item I think that you should have a statement from us on it.

The president has made a very complete statement on it; I think I should refer to the last year's committee when we indicated that there was a variety of methods that might be used to take care of the anticipated deficiency in depreciation, but we indicated a preference for one, and that was the charge to income account. The president has said that with our concurrence the railway decided on that treatment in this year's accounts. He referred to a difference between legal and accounting opinion.

I would like to refer at this time to what we call our short form report. That appears on the first page of our report, in which you will notice that there is a comment with reference to depreciation accruing prior to the adoption of depreciation accounting. Had this charge not been made this way there is a possibility we may have had to include some additional reference there.

Furthermore, it is possible to have a difference in the deficit determination for accounting purposes and the deficit that the Department of Finance may reimburse. In public utilities you have the situation where various statutes govern or affect financial figures. The auditors must consider those, but at the same time they must consider other accounting aspects. All I am trying to say is, that it is a matter not without doubt at any time, and there can be honest differences of opinion in the determination of what is legally the amount which may be considered for a deficit reimbursement.

When the proper time comes, after these adjustments or repayments of the deficit account are recorded, it will be necessary for us to consider, at the time of our next report, the manner in which the railway officials have dealt with it. This has not been done and it is not necessary for us to comment further on this particular matter.

Finally I want to refer to the paragraph in our report under the consolidated income statement which states:

The deficit for the year of \$29.6 million is recoverable from the government of Canada. At December 31, 1957, \$13.0 million had been received on account and the balance due of \$16.6 million is shown on the balance sheet as an amount receivable.

I think I should point out to this committee that, due to the decision of the Department of Finance, part of that \$16.6 million, if received by the railway, will be repaid or deducted from future advances.

That is all I have to say, thank you.

The CHAIRMAN: Thank you very much, Mr. Wilson.

Now that the motion is passed I do wish to say I think on behalf of the committee how much we appreciate the clear-cut submission and presentation made by the president of the Canadian National Railways, Mr. Gordon, assisted by his vice-president of operations, Mr. Dingle, and Mr. Armstrong, vice-president in charge of finance, and also the presence of the minister at our sittings.

I want to pass on to you, Mr. Gordon and all your officials, the appreciation of the committee for the clear-cut report that you have given to the committee which helped to expedite their proceedings.

Mr. CHEVRIER: Mr. Chairman, would you allow me to add to that by saying that it is always a pleasure to have the officers of the Canadian National Railways here and surprised to see how they are in possession of so many facts and are able to answer the questions so well, as they do. Now, knowing

Mr. Gordon, of course, it is no surprise to me. He has been on this for some years now and he is in perfect possession of all the details of the Canadian National Railways.

So I would like to join with you, Mr. Chairman, in extending to him and his officials our thanks for the excellent manner in which he has presented these excellent reports to us.

Mr. Chairman, I wonder if I could make a comment. I see, much to my surprise, that the committee will sit on Wednesday evening from eight o'clock on and I think, although I may be wrong, that is in error. I doubt very much if the committee has the power to sit on Wednesday evening when the house is not sitting.

The CHAIRMAN: No, I think it may be an error.

Mr. CHEVRIER: I am sure the committee would appreciate it if we were not sitting on Wednesday from 8.00 to 10.00.

The CHAIRMAN: We have the power to sit when the house is not sitting, of course, as well as when it is sitting, Mr. Chevrier, but whether we have the power to sit on a Wednesday night I do not know that it would be desirable.

Mr. CHEVRIER: Well, I do not want to argue the point whether we have the power or not. I do not think we have, but the point I was making is, I do not think this committee has ever sat in the past on Wednesday evenings.

Mr. SMITH (*Simcoe North*): The question may be hypothetical because all we have to deal with is T.C.A. now and by tomorrow afternoon I hope we will be finished with them.

Mr. FISHER: Is it not your pleasure to bring before us some independent witnesses?

Mr. SMITH (*Simcoe North*): I have no plans.

The CHAIRMAN: We have a plan to sit at 3.30 this afternoon and tonight and tomorrow morning and afternoon. I am rather optimistic enough to assume we will not have to sit Wednesday night.

Mr. CHEVRIER: Then my point is not well taken.

The CHAIRMAN: Well taken, but it might not be needed.

Mr. CHEVRIER: Could we get assurance from the chairman that if we are not through we will not sit Wednesday evening?

The CHAIRMAN: Yes, all right. I have given Mr. Chevrier assurance that we will not sit tomorrow night, but we have here items 431, 432, 442 and 443. They are details that are not passed in this.

Mr. CHEVRIER: We can do that this afternoon.

Mr. GORDON: Mr. Chairman, in addition to any of these items will my presence be required?

The CHAIRMAN: I do not think so. No. 431 is Prince Edward Island ferry, and 432 is the Newfoundland ferry and terminals, 442 is the Maritime Freight Rates Act, 635 is the West Indies Steamships Limited main estimates.

Mr. CHEVRIER: They are all Canadian National Railways items, but the minister is familiar with them.

The CHAIRMAN: He asked if we wanted him here or not.

Mr. CHEVRIER: It is not up to me to decide that.

The CHAIRMAN: If I may make a suggestion that we carry on these items at 3.30 and seeing that they do touch on Canadian National Railways if you do not mind you could come back this afternoon.

Mr. GORDON: We will be here.

AFTERNOON SESSION

TUESDAY, July 15, 1958.
3.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. We are now on item 431 of the main estimates:

Item 431. Prince Edward Island Car Ferry and terminals \$1,963,000

Hon. G. H. HEES, *Minister of Transport*: Mr. Chairman, this item covers the deficit of the Prince Edward Island car ferry. This year it is \$1,963,000 as opposed to \$2,270,640 last year, or a decrease of \$64,640.

The CHAIRMAN: Are there any questions?

Item agreed to.

Item 432. Newfoundland ferry and terminals \$3,637,000

Mr. CHEVRIER: Does this complete the construction of the terminals at Port aux Basques and North Sydney?

Mr. HEES: No. This is not capital. It is just an operating deficit.

Mr. CHEVRIER: But it says "Newfoundland ferry and terminals".

Mr. HEES: It is the operation of the ferry and the terminals from both ends.

Mr. CHEVRIER: How is the deficit so reduced? Why?

Mr. HEES: Well, as to the deficit for last year the 1957 figure included the operation of the North-Sydney-Argentia service and the North Sydney Island ports service for the full year. The 1958 estimate only includes provision for the operation of these services for six months and in addition heavy expenditures were incurred in 1957 in salvaging and repairing the *S.S. Cabot Strait* on account of grounding. It is also estimated that very substantial savings will be made in the cost of handling freight after the *M.V. William Carson* commences operating into Port aux Basques.

The estimated deficit for the full year for the North Sydney to Port aux Basques ferry, once it gets going, is estimated to be \$3,170,000 as opposed to a deficit last year of about twice that amount. It will be a less costly operation.

The CHAIRMAN: Are there any further questions?

Mr. CARTER: I would like to have the situation clarified. That is really a subsidy?

Mr. HEES: That is right.

Mr. CARTER: Most people in Newfoundland and possibly on the mainland associate that full total sum with the *William Carson*, but that is not so. That is a subsidy on all the C.N.R. boats which carry freight from North Sydney to Newfoundland, and it also includes chartered boats which carry freight from Halifax to points in the province of Newfoundland.

Mr. HEES: That is right.

Mr. GORDON: There is a gulf service and there is a coastal service.

Mr. CHEVRIER: The gulf service is not included in this sum?

Mr. GORDON: That is right.

Mr. HEES: This is for the North Sydney to Newfoundland run.

Mr. CARTER: That is the gulf service, North Sydney to Newfoundland.

Mr. HEES: No, it is for the gulf service which is included and not the coastal services.

Mr. CARTER: That is right. I said it was for any ship going from the mainland to the province of Newfoundland, whether it carried Canadian National freight or not, but only from North Sydney.

Mr. HEES: That is right.

Mr. CARTER: If that is the case, if ships are chartered by the railway to carry freight from Halifax to St. John's, do they come under this subsidy?

Mr. HEES: No.

Mr. CARTER: Is there a tendency to divert that freight and instead of carrying it directly from Halifax, to take it by rail up to Sydney and then take it from Sydney, in order to benefit from the subsidy?

Mr. BROOME: This is not a subsidy.

Mr. CHEVRIER: This is purely to make up the loss.

Mr. HEES: This is an operating deficit.

Mr. CARTER: It is a complicated deficit.

Mr. HEES: It is the deficit that is made up each year by the government.

Mr. CARTER: Yes, but it is not incurred solely with respect to the operation of the William Carson.

Mr. HEES: No, no.

Mr. CARTER: A lot of people have that idea.

Mr. HEES: Well you can assure them that it is not so.

Mr. CARTER: May we be given the William Carson deficit?

Mr. HEES: The William Carson deficit for the full year, operating from Sydney to Port aux Basques, is estimated to be \$3,170,000; that is the estimated net deficit for the full year.

Mr. CARTER: That is once she starts.

Mr. HEES: That is right, and for a full year.

Mr. CARTER: What was the deficit last year on the *Argentia* run?

Mr. HEES: The deficit last year on the *Argentia* run was \$963,618.

Mr. CARTER: That was less than \$1 million.

Mr. HEES: Yes.

Mr. BROOME: But not much less.

Mr. CARTER: Yes, and that \$6 million was incurred on the other ships. How much of this went for repairs to the Cabot Straits?

Mr. HEES: Maintenance of equipment altogether was \$525,062. We have not got separate items for the Cabot Straits.

Mr. CARTER: That was the cost of her operation last year?

Mr. HEES: The figure that I gave you was the cost of maintenance of equipment; that is the maintenance of the ship in this service.

The CHAIRMAN: Are there any other questions on 432?

Item agreed to.

Mr. BROOME: You do not intend to subsidize the run from Vancouver to Vancouver island on the same basis, do you?

Mr. HEES: Not under this vote.

The CHAIRMAN: You had better get another item for that. We are on item 442, Maritime Freight Rates Act.

Mr. CHEVRIER: There is not the same obligation.

The CHAIRMAN: I am calling item 442, Maritime Freight Rates Act.

Mr. CHEVRIER: What about item 433?

The CHAIRMAN: It has not been referred to us. I am calling item 442.

Item 442. Maritime Freight Rates Act—For the payment to the Railway Companies operating in the select territory designated by the Act, of the difference occurring on account of the application of the Act, between the tariff tolls and normal tolls under approved tariffs (estimated and certified to the Minister of Transport by the Canadian National Railway Company and approved by auditors of the said Company respecting the Eastern Lines of the Canadian National Railways and in the case of the Other Railways by the Board of Transport Commissioners for Canada) on all traffic moved during the calendar year 1958 \$14,000,000

Mr. HEES: This appropriation provides for the payment of the amounts accruing to railways for the loss in revenue on account of the 20 per cent reduction in the tariff of tolls under the provisions of the Maritime Freight Rates Act as amended, and the 30 per cent reduction effective July 1, 1957, on all outward traffic referred to in paragraphs (b) and (d) of subsection (1) of section 4 of the said act as authorized by vote 668 of the further supplementary estimates (1), 1957-1958. The proposed payments are based on the estimated volume and class of traffic to be handled during the calendar year 1958 in the territory fixed by the act.

Certain assistance was given to the maritime provinces in a reduction of 20 per cent in general freight rates, and 30 per cent in all outgoing traffic, and this vote of \$14 million is to make up to the railways what they lost in freight rates.

Mr. CHEVRIER: There are three kinds of traffic which operate in the maritimes. There is the traffic which moves from the central provinces to the maritimes, from the so-called select territory; and there is the traffic which moves from the select territory outside; and there is the traffic within the select territory.

Mr. HEES: That is right.

Mr. CHEVRIER: Does this apply to the three movements?

Mr. HEES: It applies to the traffic moving in, and to the traffic moving out; the 30 per cent applies to the traffic moving out of the maritimes to the central provinces.

Mr. CHEVRIER: It applies to two of the movements but not to the third.

Mr. HEES: That is right.

Mr. CHEVRIER: Is any consideration being given to increasing that 30 per cent?

Mr. HEES: Not at the present time.

The CHAIRMAN: Are there any further questions on 442?

Mr. ROBICHAUD: Perhaps the minister will recall that on different occasions I have asked him in the house at what stage was the survey which was being made for freight rates within the maritimes, and what stage it had reached? Is the minister prepared to give us a report on it?

Mr. HEES: No.

Mr. ROBICHAUD: How long has the survey been going on?

Mr. HEES: A survey of maritimes transportation problems has been going on. I do not think that at any time I listed this particular item as one of the items being studied at the present time.

Certain other transportation problems which have to do with the Atlantic region are being studied by our department.

Mr. CHEVRIER: The president made a reference this morning—or perhaps it was yesterday—I am not too sure—in connection with a survey which is going on among certain departments and also to a survey being made by the Canadian National.

May I ask him if that study has anything to do with the Maritime Freight Rates Act?

Mr. GORDON: No.

The CHAIRMAN: Are there any further questions on item 442?

Item agreed to.

RAILWAY AND STEAMSHIP SERVICES

Item 443. Payment to Canadian National (West Indies) Steamships, Limited (hereinafter called the Company) upon applications approved by the Minister of Transport, made by the Company to the Minister of Finance, in the amount of the deficit, certified by the auditors of the Company, in the operations of the Company in the calendar year 1958 \$190,000

Mr. CHEVRIER: What is this: how do you relate this item to the budget which we passed earlier today?

Mr. GORDON: It is the cash requirements which we estimate will be necessary to clean up the company.

Mr. CHEVRIER: I have not got the budget before me. Is it the same amount as this?

Mr. GORDON: No, it is not.

Mr. CHEVRIER: Could the minister explain it. What is the relationship between the budget item which we passed this morning, the amount of which I have forgotten, and this item?

Mr. GORDON: The deficit we estimate is \$1.3 million. It includes everything under operations of the company, and non-cash items such as depreciation.

Mr. CHEVRIER: Then this will be paid for by the Canadian National; it is in your accounts of the Canadian National?

Mr. GORDON: No.

Mr. CHEVRIER: It will not be covered by this item?

Mr. GORDON: We do not take it into the Canadian National accounts at all. This is an independent vote in connection with Canadian National (West Indies) Steamships and the government pays the deficit for the company.

Mr. CHEVRIER: It will be included in the bill which the Minister of Finance will bring down in the house later on in the session. Where do you get the funds for this deficit of \$1,359,000, and what is the relationship between that and the item in the estimates of 190?

Mr. HEES: Where is that figure of \$1 million?

Mr. CHEVRIER: The figure of \$1 million is the deficit for the operation of these seven or eight ships we discussed this morning.

Mr. SMITH (*Simcoe North*): That figure, Mr. Chevrier, which is a net charge is really a cash requirement of the company.

Mr. GORDON: This accounting confusion arises out of the fact that this year we are basing our figures on a basis of winding up, and I think I will ask Mr. Armstrong to give the details.

Mr. ARMSTRONG: The deficit, I think, will be \$1.3 million in 1958, that is for the period from January 1 to wind-up, whenever it comes.

Mr. CHEVRIER: Including depreciation?

Mr. ARMSTRONG: Yes, and of course this is for the total deficit. This year we are going to wind up the company and liquidate the insurance funds and other things. The \$600,000 is the supplementary estimate of cash required this year.

Mr. CHEVRIER: Where do you get that?

Mr. ARMSTRONG: That is a part of the deficit for which we require cash.

Mr. CHEVRIER: But it will be voted on in parliament in the estimates the Minister of Finance brings down?

Mr. ARMSTRONG: Yes.

Mr. CHEVRIER: What relationship has the deficit of \$190,000 which we are taking a vote on now?

Mr. ARMSTRONG: The two together make the amount required. The \$190,000 and the \$600,000 add to the total cash requirements of \$790,000.

The CHAIRMAN: Any other questions?

Item agreed to.

The CHAIRMAN: Now, the next, 635, supplementary.

Mr. HEES: That is the supplementary estimate that has to be voted.

Item agreed to.

The CHAIRMAN: Now, we have a motion by Mr. Chown and seconded by Mr. Bourbonnais. All in favour?

Agreed to.

Mr. BROOME: Mr. Chairman, are we just now winding up on this?

The CHAIRMAN: We are.

Mr. BROOME: I would like to make one remark if I can be accorded the same courtesy that Mr. Chevrier was, and that is that for the purposes of the record I would like to see that all major equipment, such as scheduled on page 6, when bids are called for that the Canadian National ask the bidding companies to supply the Canadian content and that in the consideration of these bids the figure of the Canadian content be taken into regard in the letting of the contracts. That puts the onus on the supplier to advise the railway company as to whether it is merely an assembly operation or whether they are carrying on a fully detailed manufacturing organization.

The CHAIRMAN: You are just asking that it be considered?

Mr. BROOME: Yes, by the railroad.

The CHAIRMAN: The railway have to buy the cheapest.

Mr. BROOME: They could know the content and even if one order were two per cent higher than the other and it had double the Canadian content, in the consideration of that bid that factor should be taken into account.

Mr. GORDON: I understand your proposal and in my opinion is a thoroughly impractical situation. It would be against the interests of the Canadian National Railways in calling for bids along the lines you suggest. However, I will take note of your suggestion and see what can be done about it.

What I think is serious, Mr. Chairman, is that the reports of the discussions of this committee have a habit of getting into the press in a very great hurry and I do not want the report to go out from this room that there has been that proposal made because it would be, in my opinion, most damaging in respect of the Canadian National Railways' purchasing policy. I would not want it thought we are being directed in any way in a manner that would tie our hands in doing what is best for the Canadian National Railways.

Mr. BROOME: All I am suggesting is that the Canadian National Railways get that information from their suppliers, that the railway ask the supplier for that information and the supplier does know the Canadian content, obviously.

The CHAIRMAN: Well, I think as the president, Mr. Gordon, has suggested, he can take your comments for consideration, but I do think we should not in any way leave the impression that it is tying his hands in any way or affecting any bids he might receive. That is the trouble sometimes, they are misunderstood.

Mr. BROOME: All I am suggesting is that they request that information, that they request and get it. It is purely in the normal course of business and that is done lots of times in lots of cases.

The CHAIRMAN: Yes, and as I understand what you are asking is that Mr. Gordon give consideration to the advisability of doing that?

Mr. BROOME: That they request this only, ask the bidding companies to supply that information with their bid.

The CHAIRMAN: Very well, that is on the record, Mr. Broome.

We have adjourned once; I imagine we can adjourn again. We will merely carry on with the T.C.A.

NOTE: For continuance of afternoon Meeting on Trans-Canada Air Lines Reports see Issue Number 2.

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HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

WEDNESDAY, MAY 6, 1959

THURSDAY, MAY 7, 1959

(Morning Meeting)

Canadian National Railways Annual Report (1958);
Capital Budget and Estimated Income Account (1959);
Canadian National (West Indies) Steamships Ltd. Annual Report (1958);
Canadian National Railways Securities Trust Annual Report (1958);
Auditors' Report to Parliament of Geo. A. Touche & Co., (C.N.R.);
Main Estimates (1960) Items 410, 411 and 419.

(See Issue No. 1)

WITNESSES:

Mr. Donald Gordon, C.M.G., Mr. S. F. Dingle and Mr. J. L. Toole of the
Canadian National Railways; Mr. H. T. Ross and Mr. J. W. Beech of
George A. Touche & Company.

(Proceedings relating to Trans-Canada Air Lines appear in Issue No. 3)

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

SESSIONAL COMMITTEE
on
RAILWAYS, AIR LINES AND SHIPPING
Owned and controlled by
the Government

Chairman: Hon. W. Earl Rowe

Vice-Chairman: Yvon R. Tassé

and Messrs.

Badanai,	Fisher,	Mitchell,
Bourbonnais,	Fraser,	Monteith (<i>Verdun</i>),
Brassard (<i>Lapointe</i>),	Granger,	Pascoe,
Broome,	Grills,	Robinson,
Carter,	Horner (<i>Jasper-Edson</i>),	Smallwood,
Chevrier,	Kennedy,	*Smith (<i>Calgary S.</i>)
Chown,	Martini,	Smith (<i>Simcoe North</i>)
Creaghan,	McPhillips,	
Drysdale,	McWilliam,	

Antonio Plouffe,
Assistant Chief Clerk of Committees.

* Replaced Mr. Grills on Wednesday, May 6.

NOTE

No Capital Budget for 1959 was contemplated in respect of the Canadian National (West Indies) Steamships Limited, although the Order of Reference of the House of Commons of April 29th refers the said Budget to the Committee.

ORDER OF REFERENCE

WEDNESDAY, May 6, 1959.

Ordered,—That the name of Mr. Smith (*Calgary South*) be substituted for that of Mr. Grills on the Sessional Committee on Railways, Air Lines and Shipping.

Attest.

LÉON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

WEDNESDAY, May 6, 1959

(5)

MORNING MEETING

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government met this day at 9 o'clock a.m. Hon. W. Earl Rowe, the Chairman, presided.

Members present: Messrs. Brassard (*Lapointe*), Broome, Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Horner (*Jasper-Edson*), Kennedy, Martini, McPhillips, Monteith (*Verdun*), Pascoe, Rowe, Smallwood, Smith (*Simcoe North*), and Tasse. (19)

Also present: Honourable George H. Hees, Minister of Transport, and Mr. C. A. Cathers, M.P.

In attendance: Mr. Donald Gordon, Mr. S. F. Dingle, Mr. J. L. Toole, respectively President and Chairman of the Board, Vice-President (Operations), Vice-President (Accounting and Finance), Messrs. R. T. Vaughan, W. Dodds, R. Sommerville, Manager, Canadian Hotels Ltd., all of Canadian National Railways, and Messrs. Howard T. Ross and J. W. Beech representing George A. Touche & Co.

Mr. Gordon's examination was continued. He was assisted by Messrs. Dingle and Toole.

The witness was again questioned on "Growth and Progress".

He had a statement on Western Union and C.O.T.C.

At 11 o'clock, Mr. Gordon's examination still continuing, the Committee adjourned until 3 o'clock or following the Orders of the Day of the House.

AFTERNOON MEETING

(6)

The Committee resumed at 3.30 o'clock. Hon. W. Earl Rowe, the Chairman, presided.

Members present: Messrs. Brassard (*Lapointe*), Broome, Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Horner (*Jasper-Edson*), Kennedy, Martini, McPhillips, Pascoe, Rowe, Smallwood, Smith (*Calgary South*), Smith (*Simcoe North*), and Tasse. (19)

Also present: Honourable George H. Hees, Minister of Transport, Mrs. Jean Casselman, M.P., and Mr. John B. Hamilton, M.P.

In attendance: Same as at morning sitting.

Mr. Drysdale raised a question of privilege. He referred to an article which, he claimed, was misleading and which appeared in The Montreal Gazette on compensatory rates.

Mr. Donald Gordon was called and, assisted by Messrs. Dingle and Toole, answered questions on

- Growth and Progress
- General (comments)
- The Year in Perspective.

On the last heading referred to above, Mr. Gordon read a supplementary statement and made further comments.

Mr. McPhillips asked that the witness reveal the sale price of a transaction made in 1947 involving Victoria Harbour. Mr. Gordon on behalf of the management hesitated to divulge the considerations of the said transaction on the following grounds:

- (a) When the reply would constitute a breach of confidence or a violation of privacy affecting those doing business with the C.N.R.
- (b) Information from the personal files of officers and employees.
- (c) Information prejudicial to the competitive position of the C.N.R.
- (d) Information tending to restrict the ability of the C.N.R. to buy or sell on advantageous terms.

It was also stated that that position has been consequently upheld by this Committee.

Mr. Drysdale suggested that any decision be deferred until after further consideration by the witness.

And a debate arising, Mr. McPhillips moved, seconded by Mr. Drysdale, that the President of the Canadian National Railways reveal the consideration obtained by the Company in 1947 for the sale of the G.T.P. docks in Victoria Harbour.

And the debate continuing, the question being put, it was resolved in the negative: YEAS, 4; NAYS, 10.

The Committee then proceeded to its examination of Mr. Gordon on the Annual Report.

On motion of Mr. Fraser, seconded by Mr. Kennedy, the Annual Report of the Canadian National Railways, 1958, including Financial and Statistical Statements, was approved.

At the suggestion of Mr. Fisher, Mr. Donald Gordon made a statement respecting the nature of the Committee's proceedings up to the present time and suggested a modified procedure. (*see this day's evidence*)

The Chairman reminded the members of the Committee of the arrangements which have been made and agreed upon for a T.C.A. luncheon flight over The St. Lawrence Seaway May 7, between 11.30 a.m. and 2.30 p.m. on Thursday.

Mr. Gordon's examination still continuing, the Committee adjourned at 6 o'clock until Thursday, May 7, at 9.30 in the morning.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

THURSDAY, May 7, 1959.

(7)

MORNING MEETING

The Sessional Committee on Railways, Air Lines and Shipping met at 9.30 a.m. this day. The Chairman, the Honourable Earl Rowe, presided.

Members present: Messrs. Brassard (*Lapointe*), Broome, Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Horner (*Jasper-Edson*), Kennedy, Martini, McPhillips, Mitchell, Pascoe, Robinson, Rowe, Smallwood, Smith (*Calgary South*), Smith (*Simcoe North*) and Tasse. (21)

In attendance: The Honourable George Hees, Minister of Transport; Mr. Donald Gordon, President of Canadian National Railways, assisted by Messrs. S. F. Dingle, Vice-President, Operations; J. L. Toole, Vice-President, Accounting and Finance; J. H. Spicer, Chief, Budget Officer; R. T. Vaughan, Assistant to the President; W. Dodds, R. Sommerville, Manager, Canadian Hotels Limited.

The Chairman observed the presence of quorum, and called as the first item for consideration the Capital Budget and Estimated Income Account—1959 of the Canadian National Railways.

Following discussion and the questioning of Mr. Gordon, the “Budget and Estimated Income Account” was adopted on the motion of Mr. Broome, seconded by Mr. Fraser.

The Committee then considered the Annual Report of the Canadian National (West Indies) Steamships, Limited for the year ended December 31, 1958.

On the motion of Mr. Fraser, seconded by Mr. Smith (*Simcoe North*), the Annual Report of the Canadian National (West Indies) Steamships, Limited was adopted.

The Annual Report of the Canadian National Railways Securities Trust for the year ended December 31, 1958 was considered, and on the motion of Mr. Broome, seconded by Mr. Smith (*Simcoe North*) was adopted.

The Auditors’ Report to Parliament on the Canadian National Railways System and the Canadian National (West Indies) Steamships, Limited for the year ended December 31, 1958 was discussed, and representatives of George A. Touche & Co. were questioned.

On the motion of Mr. Martini, seconded by Mr. Fraser, the “Auditors’ Report” was adopted.

The Committee then considered separately Items 410, 411 and 419 of the Main Estimates for the fiscal year ending March 31, 1960, and following the questioning of the Minister and Mr. Gordon the Items were adopted.

Agreed: That Mr. Gordon prepare, for distribution to members of the Committee, a statement containing suggested modification to procedures followed by the Committee in future examinations of the activities of the Canadian National Railways.

Ordered: That the Chairman present the Second Report to the House referring back the Estimates.

Mr. Gordon and officers of the Canadian National Railways were retired and thanked by the Chairman for their assistance to the Committee in its work.

At 11.15 a.m. the Committee adjourned to meet again at 3.30 p.m. this day.

J. E. O'Connor,
Acting Clerk of the Committee.

EVIDENCE

MORNING MEETING

WEDNESDAY, May 6, 1959.

The CHAIRMAN: Gentlemen, I now see a quorum. We are ready to begin. We are on growth and progress.

Mr. FISHER: I wonder if Mr. Gordon or Mr. Dingle know an Albert Wren from Kenora?

Mr. DONALD GORDON (*President, Canadian National Railways*): I do not recognize the name.

Mr. FISHER: I bring this to your attention because it has definitely to do with roadways. You will forgive the first paragraph which is somewhat wild-eyed.

Mr. GORDON: I wonder if it would be necessary for you to read it into the record, because if you do so it will get spread all across the country and I will not have had a chance to reply to it.

Mr. DRYSDALE: Could we have this procedure: whereby the reporter does not take it down, but Mr. Fisher will read it?

The CHAIRMAN: If Mr. Fisher declares it to be wild-eyed, it might be, and I do not think we should take up the time of the committee.

Mr. FISHER: The first paragraph is, I think, unfair to the Canadian National Railways. He then goes on down to a specific charge which is backed up by one of the most prominent men in the woods industry in Ontario. It reads as follows:

Canadian National Railways employ a 'crazy' accounting system devised by a 'fanatical' economist with 'strange' ideas, charged Albert Wren, Kenora MPP. He spoke Friday before the Northwest Ontario Economic Development Committee.

Mr. Wren claimed the railway bought Alberta-made ties and shipped them, when required as far as Sault Ste. Marie, Ontario. According to the MPP the railway reasoned it was purchasing cheaper ties because initial selling price in Alberta is less than in Ontario.

Transportation costs are not counted when C.N.R. says it obtained Alberta ties cheaper than Ontario-made products, stated Mr. Wren. 'What kind of crazy accounting system is that?' he asked.

Northern Wood Preservers representative R. J. Prettie in a brief, submitted to the government committee Friday, noted poles, ties and lumber can come only from selected woods while pulpwood may come from a considerably larger selection. About 25 per cent of all virgin timber can be termed selected woods, he explained, and pulpwood can be processed from the remaining 75 per cent.

Now I shall skip a bit because it is irrelevant. I will go along and read as follows:—

Julian Merrill, vice-president of the Great Lakes Paper Company Limited, commenting on cases where the C.N.R. has refused to purchase ties locally, stated the railway was on a 'revenge' program. He explained that previously the C.N.R. had wanted ties at a time when they were not available locally. 'Now they're getting back at us', he added.

Mr. GORDON: I would like to comment on that, I wish I could use the same kind of language as the gentleman does; no, I shall not call him a gentleman—but as the person who set it up. Suggesting that the Canadian National Railways is engaged in a revenge program is absolute and complete nonsense.

The general procedure whereby the Canadian National Railways acquires ties is exactly the same procedure that is used by the Canadian Pacific Railways. It is a procedure which has stood the test of time.

We make our needs known in various areas in respect of the number of ties, the price and condition of ties, and it has been our experience that we have difficulty in regularity of delivery, because under certain conditions, when the lumber market is good, those people who have timber usually available for ties tend to go into the lumber market and when the market is not good, to the railways.

When the lumber market is poor, everybody tries to sell ties to the railways. So, as a condition on our placement of orders, we have insisted over the years upon establishing a bona fide delivery on tie contracts which are undertaken. If anybody who has a legitimate source of supply of ties can demonstrate by performance that he can deliver, then that person is free to make bids for ties in any area in Canada.

I do not know what the person means when he speaks of a “crazy accounting system”, but I would judge from the tone of his letter that if something is crazy, he is a pretty good judge of what it might be.

These are statements which just do not stand up under the test of examination. As I said before, our procedure in acquiring ties is well established, and it is exactly the same procedure that the Canadian Pacific Railway follows. We know from experience that it is the only way by which we have been able to assure ourselves of the delivery of ties. Ties have to be bought in a regular cycle so that the ties we buy this year can be matured and treated and available for entry into the track in the following year.

Mr. FISHER: May I ask if there is a similar situation with respect to birch and poplar for box car doors in shipping grain?

Mr. GORDON: No, that would be a different situation. I do not know the details offhand, but I imagine that would be done by regular tender contract in which anybody who could meet the specifications could make a bid for the business.

Mr. FISHER: Would you consider having one of your officials issue a statement on the spot, that is, in northwestern Ontario, by way of explaining your tie policy?

Mr. GORDON: I would be glad to. I do not know why this comes up. I had not heard of it at all. The question of buying ties is one of those features of the railway which always causes a lot of local gossip and rumour.

I have even had it suggested to me that our buying policy has been determined by the political faith of the person involved, but we do not know the political faith of anybody. I may have a suspicion about some of the people in this room!—but that is about as far as I can go.

Mr. FISHER: I have one more question. I have heard complaints about the purchase of ties in the United States. Have you a part of your line which goes through Warrood, and do you purchase ties in the United States?

Mr. GORDON: Yes, but for United States use only.

Mr. FISHER: And none of them come into Canada?

Mr. GORDON: None that I can recall.

Mr. CHEVRIER: A brief was presented before this royal commission on economic prospects. That brief had to do particularly with railway transportation. In it there were several suggestions about possible railway construction in Canada. I am particularly interested in one suggestion which was under

discussion at the time and I wondered if the railway had given it any consideration; that is, a railway line which would go from Murray Bay along the north shore of the St. Lawrence river to Seven Islands, or in the alternative from Lake St. John or where your Chibougamau St. Felicien line is now being constructed, from there on to Seven Islands and then on to Labrador. Has any consideration been given to that particular suggestion? Has a survey been made, and what can you tell us about such a projected line?

Mr. GORDON: No; but in a general way we have been looking at the possibility of such a line. We have had some discussions with interested parties, but they have not got down to anything concrete in the economic sense. We have not been able to develop any proposal because we do not have anything in the form of traffic guarantee.

At the moment, I think we have looked at three approaches to the project but it has not gone past the talking stage. Perhaps that is the best way to put it.

Mr. CHEVRIER: May I follow up with this: have the officials of your research division given consideration as to whether such a route would follow the north shore or would go inland from the north shore?

Mr. GORDON: Both have been examined. The big controlling factor is the question of a bridge across the Saguenay river.

Mr. CHEVRIER: You mean the cost of it?

Mr. GORDON: Yes, and where the river might be crossed. As to a route which goes inland, I am trying to picture the map in my mind. The inland route would cut right across the terrain and it would be a very difficult route.

Mr. CHEVRIER: You would not have to cross the Saguenay in that case?

Mr. GORDON: An extension of the Murray bay line following the St. Lawrence north shore line to the mouth of the Saguenay river would call for either a bridge or a car ferry operation there.

Mr. CHEVRIER: At Tadoussac?

Mr. GORDON: Yes, and a bridge at that point, I think you would realize, would be a major engineering feat, if possible at all. We doubt if it is possible because the river at that point is very, very deep. So it might be a car ferry operation if that alternative was selected.

Mr. CHEVRIER: With the development of the north shore, from a natural resources standpoint, as it is going ahead now, does not that offer some attractive business to the railway?

Mr. GORDON: We have not seen it yet. The industrial development on the north shore, which involves the production of iron ore, pulp and paper, and aluminum, as we know of recently, is based largely on the cheap water movement through the navigation season and stock-piling in the winter time. There are also possibilities that that navigation season may be increased. We also have considerable apprehension as to how the opening of the St. Lawrence seaway might affect that operation. As I said before, the conclusion that we reached, after discussions with interested parties, was that at this moment there is not sufficient prospect of rail traffic to justify the project. That can change as we continue to watch the situation.

May I also make it clear that the crossing of the Saguenay river, on the inland route would have to occur near Arvida.

Mr. CHEVRIER: The last question I would like to ask on this is, what consideration has been given to this projected line, linking up with the railway that goes from Seven Islands to Schefferville?

Mr. GORDON: It would be part of it if it were done.

Mr. CARTER: My question goes back to the policy of purchasing railroad ties, Mr. Chairman. I understand that if the contractor supplying the ties is living in an area served by the railway all he has to do is deliver the ties to the railway at some point and the railway then takes delivery at that point and looks after the transportation charges. In the case of areas that are served by coastal boat there is a different policy, and the man not only has to bring them to the boat but he has to pay freight on them to the railway terminals. That puts the supplier in an area served by a coastal boat at a serious disadvantage over the supplier in an area served by the railway. I wonder if Mr. Gordon would review that policy with a view to putting boats on the same basis?

Mr. GORDON: I will look into that particular point. I do not profess to know all the exact details of the purchasing of ties, but my general understanding is that these factors are taken into account in the laid-down price.

Mr. CARTER: The laid-down price at the railhead?

Mr. GORDON: Yes.

Mr. CARTER: But that does not apply to a port served by a coastal boat?

Mr. GORDON: That is right; and we have to decide what is to our advantage and we buy at the best price possible.

Mr. FRASER: We have not quite reached that point, but could Mr. Gordon give an answer to my question with regard to freight cars that have been painted with light colours or luminous paint? I have asked for that for fifteen years.

Mr. GORDON: This is the situation; in the legislation increasing the railway grade crossing fund you may recall that there was a special provision in respect of the possibility of providing reflectorization of highway signs, as well as the possibility of placing reflective markings on the sides of railway cars, with the intention that the railway grade crossing fund would assist in the expense in that connection. There has been a good deal of discussion on this subject between the Railway Association of Canada, representing all the railways in Canada, and the Board of Transport Commissioners. A board order has been issued in regard to the reflectorization of highway crossing signs whereby steps will be taken to provide a yearly program in that connection.

There still remains for discussion the question of the maintenance costs of the signs because the railways quite properly take the attitude that those signs are for the protection of the highway and not the railway. However, there is a program under way in regard to highway signs.

In regard to the reflectorization of railway equipment, when we got down to a detailed discussion there arose all sorts of questions regarding what is or is not involved in a program of that kind, in particular the question of not only the cost of painting the cars, but also of maintenance. As a practical matter some very serious doubts have been expressed by the railways as to the common sense of that kind of action.

Under certain weather conditions, for instance, the reflectorizing paint on the sides of cars would stand about one trip. Secondly, there is the practical problem that unless it were made uniform, so that all cars coming in from the United States were also painted with this device, in our opinion, as railroaders, you would increase the hazard at level crossings, because you would get a long freight train, some cars of which would be covered by this reflectorizing device, whereas the American cars would not be. The motorist, having seen the reflectorized cars go by, might quite easily in the dark think that was the end of it and drive into the side of the unpainted cars.

There is also the technical problem of where the markings would be placed. Box cars, hopper cars and flat cars are at different levels, and in the train and you would not get uniformity in that respect.

Our summarized opinion, is that there are a lot of technical problems that need to be sorted out before embarking on a program of that kind. Therefore, a joint committee has been formed between the Board of Transport Commissioners and the Railway Association to develop practical views in connection with this thing.

I have before me a number of pages of these technical details, but the foregoing, I think, is a general summary of it. If I may express a personal view—and I do express it as a personal view because the official view has been put forward in a brief by the Railway Association—my personal view is it would be a mistake to embark upon a program which I know is dear to your heart, Mr. Fraser, but I feel it would add to the hazard rather than reduce it.

Mr. FRASER: In regard to the American cars not being marked, almost all the American freight cars coming into Canada have large markings in white letters on them, which show up very plainly.

Mr. GORDON: You say "most." Now, Mr. Dingle, let us have your view.

Mr. S. F. DINGLE (*Vice-President, Canadian National Railways*): On the over-all there are very few such cars.

Mr. GORDON: There are on an over-all a relatively small number, and the point is, Mr. Fraser, that unless this were a uniform program, unless we had the same law in the United States which would require all cars to be marked, then any unmarked cars going into a train would produce a hazard for highway traffic. It would be a psychological trap, in my opinion; and if my view were asked, as I expect it will be by this committee, I will continue to express my opinion strongly that I am against it from a safety point of view.

Mr. FRASER: In regard to the signs that are going to be luminous, was any consideration given to having them marked with the direction that the track would be instead of the straight markings, the slope the track is running in?

Mr. GORDON: I do not know about that. The information I have here is that the Board of Transport Commissioner's order No. 97269 was issued on March 3, 1959, and I think if you get a copy of that order you would have the details of it. I do not happen to have the detail before me.

Mr. FISHER: Supplementary to that question, is there not a trend in the United States toward painting box cars brighter colours?

Mr. GORDON: Oh, I think they do generally for advertising purposes rather than for improving the visibility.

Mr. FISHER: You have no policy in this direction here?

Mr. GORDON: Not yet. We try to keep our box cars a standard colour from the standpoint of expense, and I think that is true of the railways in the United States. They adopt a colour and stick to it as I recall it.

Mr. FRASER: Mr. Gordon, apropos of that, a lot of these refrigerator cars are in a yellow colour in the states, and if you had those cars at different points in your train you would get the same effect. Do you not think that having some of these yellow cars at various points in the train would be a good thing?

Mr. GORDON: You might be right on that. All I am saying is, your program would increase the hazard. There is no substitute for ordinary common sense of a highway operator coming to a railway crossing and, as a matter of fact, on the figures I have before me of the number of motor vehicles which ran into trains at crossings in the year 1957, which are the last figures I have, 51 of them happened in daylight and 109 at night. So that twice as many people have troubles at night. However, the number which ran into trains in broad daylight is substantially a third of the total.

Mr. FRASER: It may have been daylight, but it might be raining?

Mr. GORDON: Oh, yes, but personally I cannot understand people running into the side of a train.

Mr. FISHER: A supplementary question on the ties, Mr. Chairman. Your bid price is the important thing in so far as ties are concerned. Do you allow for transportation?

Mr. GORDON: It is the delivered price at the rail point and the price is only one factor. Another is the assurance of delivery. For instance, we have a situation where a contractor, or a supplier would be the better term, will undertake to accumulate ties by going around a given area or district, as the case may be, and pick up small numbers. There are some farmers who may have 50 or 75 ties. Obviously it is impractical for them to deliver, and so what we will try to do is to contract for 2,000, 3,000 or 5,000 ties with one contractor, and he becomes sort of a collector of ties. That is where the rumours and suggestions arise, because that supplier may make a sweep of the country for ties and possibly not visit a farmer whom he does not like. He may just ignore him. But if his contract is to supply us with 3,000 ties he may sweep the district. I have said this before and I say it again, that if any supplier who is acting for the Canadian National Railways on a contract is accused of exercising improper pressure or expressing improper preference then we want to know about it. We would certainly take the matter up with him and point out that this is not part of our policy.

Mr. FISHER: But it is quite possible under your policy for ties to come all the way down from Alberta to Ontario and be used in Ontario?

Mr. GORDON: I would not like to answer that. I would think it would be unlikely, but there may be some special circumstances such as a shortage, for instance, in the area.

Mr. BROOME: There was a question which I asked yesterday and I think Mr. Gordon said he was going to make that statement today. It was in regard to communication and C.O.T.C.

Mr. GORDON: I think Mr. Chevrier, Mr. Broome and you were both interested in it. As I told you yesterday, this is a very involved matter, but I have tried to keep it very brief because I think all you want to know is the actual situation as to why we are not at present using C.O.T.C. The history is, in 1915 the Canadian Northern, which was later incorporated into the Canadian National, entered into an agreement with Western Union providing that Western Union and Canadian Northern would exchange United States-Canadian message traffic exclusively and that they would also exchange Canadian overseas cable business exclusively.

The Canadian National inherited these contractual obligations with Western Union, which will not normally expire until 1978. The Canadian National, as I say, inherited those at the time the Canadian Northern became part of the Canadian National system.

The Canadian Pacific had a similar agreement for exclusive interchange of United States-Canadian message traffic with Postal Telegraphs of the United States, and also an agreement for interchange of overseas cable traffic with three companies, which included the Marconi Company which was subsequently acquired by the C.O.T.C.

In 1943 Postal Telegraphs, that is, the Canadian Pacific Railway's United States connection, was acquired by Western Union, and as a negotiated supplement to this acquisition it was agreed between the parties that until the Canadian Pacific Railway's exclusive interchange agreement with the Postal Telegraphs expired in September, 1959, the Canadian Pacific Railway would continue to enjoy a comparable proportion of all United States-Canadian message traffic exchanged to that which it had enjoyed under its Postal Telegraphs agreement, even though the Postal Telegraphs had been acquired by Western Union.

That is the situation that obtained when C.O.T.C. came into being. Marconi came into C.O.T.C. and therefore the Canadian Pacific Railway through their connection at that time go into C.O.T.C. because they were not, as we were, involved in an exclusive interchange with Western Union. So the situation stands now, that in September of 1959 technically the arrangement which the Canadian Pacific have for exclusive interchange on United States-Canadian traffic will expire and at that point all of the parties, C.O.T.C., the Canadian Pacific Railway, Western Union and ourselves will negotiate a new deal—a new understanding, so to speak—and out of that we hope and expect we will be able to conclude arrangements whereby we will be free to exchange overseas cable traffic with the C.O.T.C.

Mr. BROOME: That is in 1959?

Mr. GORDON: Yes; it is now in progress at this moment.

Mr. BROOME: But your contract runs to 1978?

Mr. GORDON: Quite right, we have an exclusive contract with Western Union until 1978, but the point is that the United States—Canadian exclusive contract with the Canadian Pacific Railway, with Western Union, expires in 1959 and a new arrangement at that time will have to be negotiated. Out of these circumstances we hope to get into a position where we will re-orient the arrangement, and I am only giving you these bare outlines because there is a bargaining position and I do not want to disclose the details. We expect to make a good bargain.

Mr. CHEVRIER: Can you do that in 1959 even though you have a contract with the Western Union that does not expire until 1978?

Mr. GORDON: That is one of the points we want to discuss with them.

Mr. BROOME: In other words, most likely you will keep your exchange for continental messages and go to C.O.T.C. for cables?

Mr. GORDON: Something of that kind. I do not want to give all the details because there is a bargaining position. All the factors will have to be discussed and those discussions have already been started. We have had previous discussions which were abortive by reason of this contractual agreement we have that does not expire until 1978.

Mr. CARTER: Mr. Chairman, I just wanted to make a suggestion. This is Growth and Progress that we are discussing and runs into several pages. I wonder if we would not make better progress if we just considered one page at a time. We seem to be switching back and forth. Are we still on page 15?

Mr. BROOME: I think we are just about through the whole thing.

The CHAIRMAN: I was assuming you were on page 19.

Mr. FISHER: I would like to ask some questions about yards and terminals.

The CHAIRMAN: We have talked about new lines, roadways, yards, terminals, dieselization and rolling stock.

Mr. DRYSDALE: No, we have not.

Mr. FISHER: I am quite agreeable to Mr. Carter's suggestion, but could we carry new lines on page 15 and then work down?

The CHAIRMAN: We have been over it all. Do you wish to start all of it again?

Mr. BROOME: No, just clean those off.

Mr. CHEVRIER: I think we have been on new lines for some time now and perhaps we could get on with it.

The CHAIRMAN: All right, new lines?

Agreed to.

Roadways?

Agreed to.

Signals?

Agreed to.

Yards and Terminals?

Mr. CARTER: On that point I was going to ask Mr. Gordon if he could tell us whether he expects to put any work at all on the terminal facilities at St. John's, Newfoundland, this year. It says here:

At year end, an expansion of the terminal facilities at St. John's, Newfoundland, was also planned.

How much progress have you made on that?

Mr. GORDON: The program is going full steam ahead this year. My understanding is we have got it in play and it is going ahead rapidly this year.

Mr. CARTER: Work will begin?

Mr. GORDON: Well, it has begun now.

Mr. CARTER: It is already in progress?

Mr. GORDON: Yes, it is a current item, in other words.

Mr. FISHER: You have given an indication to the government, have you, that you are interested in working cooperatively with the Canadian Pacific Railway on the terminal yard that will be necessary for the lakehead harbour development?

Mr. GORDON: Yes, we have. The Minister of Transport has been advised that the proposed new freight terminal will be a satisfactory solution to the long-term development of the Canadian National Railways at the lakehead and that the railway will welcome an opportunity to cooperate in the design of the terminal.

Mr. FISHER: The deadline date for completion of the large facilities there is set for 1961.

Mr. GORDON: I have it as 1962. You could be right, I do not know about that.

Mr. FISHER: Do you know, Mr. Hees? I think they figured July, 1961.

Hon. GEORGE HEES (*Minister of Transport*): I am not sure.

Mr. FISHER: All I am interested in is, are your plans and your cooperative work with the Canadian Pacific Railway far enough advanced that you can hit the 1961 schedule, on a yard such as that?

Mr. GORDON: I can only go by the note I have here, and it says a further study dealing with the adequacy of the railway's own dock facilities at the lakehead ensures that these facilities are capable of handling all expected traffic by the end of 1962. That does not mean that the traffic will not start ahead of that.

Mr. FISHER: You state that you can solve your difficulties at the lakehead. Does that mean that this particular yard, running westward, may enable you to pick up that line that runs through the city of Fort William?

Mr. DINGLE: Not at all, Mr. Fisher. You are confusing that with our wharf handling facilities. This new wharf being constructed by the federal government will be served off of that. I do not anticipate any new yard for that.

Mr. FISHER: All I am going by is a plan that one of Mr. Hees' officials showed me, which seemed to indicate twelve or fifteen tracks, which would run straight out to the Canadian National and Canadian Pacific tracks which

are at right angles to it and I was wondering what sort of device you would have to make arrangements for the cross-over. Would there have to be a sort of over-pass there?

Mr. DINGLE: I have no details of any yard planned to serve the dock.

Mr. FISHER: And those yard plans, or whatever is there, you say there will be no effect on what arrangements you have at Neebing?

Mr. DINGLE: No.

Mr. CARTER: Terminals—can Mr. Dingle tell me what the situation is with regard to the over-pass at Port aux Basques?

Mr. GORDON: Well, it is some time since I was in on that personally, but it is my recollection that it has been amicably settled. Are you aware of any hiatus on it?

Mr. CARTER: No, but I am wondering when work will go ahead?

Mr. GORDON: Well, the last time it came to my attention an agreement had been reached and, as far as I know, the work is in progress.

Mr. McPHILLIPS: This might be on terminals. Is it time to take up that question I asked Mr. Gordon last evening about deep sea docks in Victoria?

Mr. GORDON: I am sorry I misunderstood you last evening, but I got myself oriented when I began to think about it. We operate Pier A and that operation along with the required staff on Pier A takes care of what might be called the public arrangement for shipments coming in. The shipments consist mostly of export lumber and inward cargo of a general character.

Pier B is leased, shed 1 to Buckerfield's Limited, who handle seed and feed, and a section of the other portion to Wagner, Stein and Green, who handle scrap, with a portion of the rest to the Victoria Elevators Limited. Our records show these piers were entrusted to the railway in 1928, after a period of some ten years when they had been operated on a rental basis. However, they are now operated under an entrustment order which provides for management and operation by the Canadian National, the railway to maintain certain roadways and shed structures, and the Department of Public Works to maintain in consultation with the railway the pier structures. That is the general situation under which we operate Pier A as a general facility, and we lease Pier B to the people I have mentioned.

Mr. McPHILLIPS: Western Lumber Exporters, I think, have very large stacks of lumber. Is that yard leased to them?

Mr. GORDON: Yes, there was paving of that particular place you mention, for the purpose of providing a suitable lumber storage area adjacent to Pier A, and that work was over and above the ordinary required maintenance of the area. That is leased by the lumber company you have in mind.

Mr. McPHILLIPS: Well, these revenues from docking dues and leasing and so on, does that come into the general revenue of the Canadian National Railways?

Mr. GORDON: Yes, we get the revenue and we are responsible for the maintenance and repairs.

Mr. MONTEITH (*Verdun*): Mr. Chairman, I would like to ask Mr. Gordon what is the future of the Point St. Charles shops? Is there any possibility of some of that work being transferred to Cote de Liesse, or will the shops stay where they are now?

Mr. GORDON: The diesel running maintenance will be at the new Cote de Liesse yard, that is all.

Mr. MONTEITH: Over the past couple of years there has been a steady lay-off, in large numbers. Verdun is affected a great deal by the Point St. Charles shops. Could you give me a comparison of the number of employees there now as compared, say, with 1956?

Mr. GORDON: I do not know if I have that readily available. I have not available a figure of that kind, and again we are in the difficulty of not knowing what is meant by "comparison" because there is a fluctuating employee list that is dependant on what kind of work is going through. We are always in some trouble with this, that if we take any particular time you have to ask yourself what were the conditions at that time. That does not give an intelligent comparison. I am afraid I cannot do it without making an analysis of the conditions and circumstances at any particular time.

Mr. MONTEITH (*Verdun*): I would not want an exact figure of that, just an approximate figure. I get that argument every day.

Mr. PASCOE: Mr. Chairman, this is quite a local situation. I was going to write to Mr. Gordon about it, but he may be able to comment. It is a letter from a Moose Jaw man and I will just read a part of it:

I understand that all of their shunting...

This is Canadian National in their Moose Jaw yards.

...is done with engines run up from Regina, light and therefore, it would appear to me a very expensive manner of handling the rail work as I believe the crews are paid regular time on coming back and forth...

Then he says:

The C.N.R. have three substantial industries (in Moose Jaw) that they service in addition to their passenger trains. They service the Husky Oil Company, the Saskatchewan Training School, and the R.C.A.F. airport...

They are quite substantial and he wonders if there is any possibility of a little more permanent development in the Moose Jaw yards there.

Mr. GORDON: Well, that is another example of how many people know how to run a railroad. All I can say is that in all our shunting arrangements or our movements of any kind, that the local superintendent's job is to see to it that they are done on the most economical basis possible. You cannot just take a surface indication of that kind and form a judgment as to whether or not it is a wasteful operation. I can tell you if it was a wasteful operation we would quickly get to it.

I cannot comment on that specific kind of thing, but if you would drop a line to me or to Mr. Dingle we will be glad to look into it. I just know there is an answer, because all our operations are carefully examined for the purpose of making them as economic as possible.

Mr. CREAGHAN: Have you any plans at the present time to put a hump yard in the Toronto area?

Mr. GORDON: Yes, that was announced a short time ago.

Mr. CREAGHAN: That will be four, then, across the system?

Mr. GORDON: Yes, the main hump yards will be at Moncton, Montreal, Toronto and Winnipeg.

Mr. CREAGHAN: Will they all have continuous rail?

Mr. GORDON: Continuous rail in the yards?

Mr. CREAGHAN: In the hump yards.

Mr. GORDON: I was just checking with Mr. Dingle and he confirms that the use of continuous rail is going to be possible in all yards.

Mr. CREAGHAN: I understand there is some possibility that the hump yard at Moncton will be opened next year.

Mr. GORDON: Not opened.

Mr. CREAGHAN: In 1960.

Mr. DINGLE: Toward the end of 1960 we might have a portion in operation.

Mr. GORDON: It may not be finished but it will be well advanced.

Mr. CREAGHAN: I would not expect the buildings to be completely finished; I was referring to the main yard.

Mr. GORDON: We would have some operations toward the end of 1960.

Mr. CREAGHAN: When it is eventually opened and in complete operation there will be certain yards that will be obsolete and probably sold. I was just wondering what a person does about buying some of the land in question on the trackage that will be abandoned. This is choice commercial land in the city of Moncton.

Mr. GORDON: Bid the highest price possible; see our industrial development man in the C.N.R.

Mr. CREAGHAN: Should a prospective buyer wait until there is an advertisement, or can he put in a bid?

Mr. GORDON: He should make an approach as soon as possible and indicate his interest; we will discuss it with him and let him know whether or not the particular portion is likely to become available—and the sooner the better because people are interested in all these possibilities.

Mr. CREAGHAN: The problem at this time is for the local town planning commission and prospective industries to get together and approach the railway.

Mr. GORDON: I suggest anyone interested should get in touch with Mr. Gonder, our regional vice president in Moncton and he will see they meet the right people.

Mr. FISHER: What will happen to the Mimico and Don yards when you get the new facilities in Toronto; will there be land available there?

Mr. GORDON: There will be land available, but we are not quite sure just how much. We will have land available in certain of these yards.

Mr. FISHER: Do you say that it will have any effect on the yards at the foot of Bathurst street?

Mr. GORDON: I do not think so. These yards at Bathurst, and Mimico particularly, are definitely a question mark. I have in mind the development of the St. Lawrence seaway. We want to wait and see what the traffic impact will be on the Toronto area before we make any decision. Once we see what the St. Lawrence seaway is likely to produce we will have a better idea.

Mr. FISHER: A number of us have received letters in connection with the projected plans on the north side of Toronto; is there any easy way out of the big controversy that is welling up?

Mr. GORDON: No, but we have been having very intensive conversations with all the interested parties. I have had special meetings with all the Toronto members who have approached me on behalf of their constituents. We have had constant meetings with all the planning authorities, and even at this moment our executive vice president is in Toronto discussing an important suggestion in connection with Vaughan township. We set this up as an entirely separate project under Mr. J. L. Cann, our engineer. He has with him a staff of technicians, not only engineers but real estate advisers and assistants, so that any interested party can sit down and talk about their problems or make any suggestions that they may have in mind. That will make the whole project more palatable. But when all is said and done some people will be inconvenienced; however, we will try to make amicable settlements with them.

Mr. FISHER: In connection with the question of property values, have you any indication from the new American yards of a similar type that have been put in as to how it affects property values?

Mr. GORDON: Of course, it varies. Obviously, if the line goes through a residential area it will tend to reduce property values of the residential district; but in areas where industry is likely to develop, it should increase values because of access to the railway.

Mr. FISHER: In connection with the Symington yards, will that have a definite effect upon the amount of rail traffic at the Lakehead that is humped there now?

Mr. GORDON: No, it is merely a coordination of our facilities. We have three yards in Winnipeg arising out of the amalgamation, and the Symington yard is bringing together at long last the coordination of all our marshalling facilities in the Winnipeg area.

Mr. FISHER: The Canadian Northern and the old Grand Trunk?

Mr. GORDON: Yes.

Mr. FISHER: In regard to Port Arthur and Neebing, is there going to be any adjustment there? For example, will the Port Arthur car repair and roundhouse be dropping away because of no further use?

Mr. DINGLE: Well, I think it can be said that the Port Arthur roundhouse as such will disappear in time; but as to car repairs and inspection there will be no change of any consequence at Port Arthur. Indeed, it may increase.

Mr. FISHER: The question there is a parallel one. Again, it would be extremely valuable property. The roundhouse property lies next to the main industrial belt. Is there any possibility that people should be taking an interest in trying to purchase that?

Mr. GORDON: There is no particular timing in respect of any property that the railway has. The best thing to do, for anyone who has an interest, is to get in touch with us and tell us what their interest is. We can tell them at any given time whether or not that property is likely to become available. If anyone has an interest in property, they would be well advised to let us know. The same thing applies to Toronto. We have told everyone the same thing. The city of Toronto has an interest in certain property. I asked them to tell us what their interest is and we will give it consideration as soon as we know what we can do.

Mr. FISHER: Therefore in connection with all these properties which would become available by changes in yards, it is on an ad hoc basis and your general advice would be to get in an inquiry about it and see what can be worked out.

Mr. GORDON: Yes. In handling real estate it is not always possible to advertise a piece of property for tender which could unfairly deal with the situation at hand. People get an idea about a piece of property and then try to acquire it. If we were to hold everything back until we offered it in an open tender, we might prejudice our own interests, as well as others.

The CHAIRMAN: Gentlemen, I think we are getting beyond the subject; we are getting into real estate.

Mr. FISHER: These questions are in connection with the yards. I have another question in connection with the Lakehead. What are your plans for the Port Arthur repair track; will there be any change there?

Mr. DINGLE: There will be no appreciable change. We intend to maintain that and service all the cars for that area—and east of Port Arthur.

Mr. FISHER: In connection with grain shipments, I understand demurrage at the Lakehead is a problem for the railways. Have you made any studies in that regard? In so far as the yard facilities are concerned, have you made any attempt to improve that—or is it strictly an elevator problem?

Mr. GORDON: It is strictly an elevator problem. Very seldom does demurrage result by reason of our inability to repair the cars.

Mr. CHEVRIER: I have a question concerning your yard facilities arising out of the flooding of your tracks in the international section of the seaway. What disposition is being made now in regard to the yards at Cornwall where your regional line used to be? Is that purely for freight and track purposes?

Mr. GORDON: Are you talking about the Cornwall diversion?

Mr. CHEVRIER: I have not yet arrived at that point. I am talking about what now remains.

Mr. GORDON: In Cornwall proper?

Mr. CHEVRIER: Yes.

Mr. GORDON: It is now treated more or less as a spur into Cornwall off the main line. There has been no change of any consequence in regard to the actual yard facilities there.

Mr. CHEVRIER: But the yards did not go beyond one or two miles west of Cornwall, and they are stopped because of the seaway dam.

Mr. GORDON: Yes.

Mr. CHEVRIER: Well, you have bought a portion of the New York Central line.

Mr. GORDON: Yes, but the Cornwall portion was incidental to the purchase of the whole line between Cornwall and Ottawa, and in the course of doing that we did acquire a portion of the line in Cornwall which was of interest to us in connection with servicing.

Mr. CHEVRIER: Is that to service industry in that area?

Mr. GORDON: No.

Mr. CHEVRIER: Well, could I ask you another question before we leave this. In connection with the diversion from Cornwall to Prescott, or Iroquois, how many overpasses have been applied for over that stretch of fifty miles? Can you tell me whether or not there are a sufficient number of them?

Mr. GORDON: Well, I do not remember the number, but I do know that the overpasses which were approved and agreed upon by the Board of Transport Commissioners were built. There were one or two left aside for a later date; but everything that was authorized is completed.

Mr. CHEVRIER: Did you want the two that have been left aside?

Mr. GORDON: I cannot say that. We accepted our part of the obligation under the grade crossing development. From that point on the initiative is theirs, in regard to the matter.

The CHAIRMAN: The next item is "dieselization".

Mr. CHEVRIER: In connection with dieselization, you will recall I had some questions the other day and was told to hold them. Could we get the answer as to when dieselization on the C.N.R. will be completed?

Mr. GORDON: Yes, we expect that everything will be completed by the end of 1960.

Mr. CHEVRIER: How does that compare with other railways, first the C.P.R. and the next the United States class 1 railways?

Mr. GORDON: We believe that we will pretty well synchronize with the C.P.R. Perhaps they will be through with their program a few months ahead of us; but in terms of total dieselization, we believe we will be about the same.

Mr. CHEVRIER: Can you say what the over-all cost of the dieselization program has been since you have started?

Mr. GORDON: Our estimate of the total dieselization cost—and that covers not only the cost of the actual locomotives but includes all the collateral facilities in terms of fueling stations, shops and so forth—is \$80 million, which is somewhat less than we had originally estimated; because at this point we are building to a lower traffic level than we estimated when we started.

Mr. CHEVRIER: That is the over-all cost for total dieselization, and not what you have done so far?

Mr. GORDON: Yes.

Mr. CHEVRIER: Have you made any progress on the development of the gas turbine?

Mr. GORDON: No, there is nothing new at all in that respect.

Mr. CHEVRIER: Are the studies still continuing?

Mr. GORDON: Not to my knowledge. The studies which were going on at McGill university have been dropped.

Mr. CATHERS: After that first meeting which the Toronto members had with you in connection with the by-pass, did you have any opportunity to discuss that with the Toronto people? You raised the point of who was going to pay for it.

Mr. GORDON: I am sorry; I missed part of your question.

Mr. CATHERS: In connection with the commuting service, is there anything new?

Mr. GORDON: Oh, yes. What I said in regard to the possibilities of commuter services was that if this plan goes through and after it has been put in place, it will relieve existing lines particularly along the Lakeshore, to a point where it would be practically possible to put on commuter services. I made it clear that if commuter service in the future was to be made available, it would have to be a matter of agreement in regard to its financial setup. In other words, we were not prepared to embark on our own account for further commuter service which would show a loss. My suggestion was that local governmental authorities would have to examine the situation then to see whether or not they would be prepared to provide part of the cost. In other words on the basis that the railway will be able to recover from fares and otherwise the full cost of such service.

Mr. CATHERS: I am speaking more of commuter service to the north. You mentioned your line along the shore, but those two lines of yours going north would have a heavier load now to what they previously had.

Mr. GORDON: No. I mentioned the Lakeshore particularly because those are existing commuter services. But the effect of this by-pass line and the establishment of the new marshalling yard in the northern portion of the Toronto area would relieve all our lines to a point where we would be able to discuss the practical possibilities of a commuter service subject to the financial arrangements.

Mr. CATHERS: Around Montreal you have some quite active commuter services. Is anybody subsidizing them?

Mr. GORDON: No.

Mr. CATHERS: Are you operating those commuter services at a profit?

Mr. GORDON: We are not, any more than we are doing it in Toronto. What I have in mind is a new commuter service.

Mr. CATHERS: Are you making money out of the ones you are operating in Montreal?

Mr. GORDON: No, we are not.

The CHAIRMAN: I think that was dealt with yesterday, when it was said that we are losing money on them.

Mr. GORDON: On all commuter services.

The CHAIRMAN: That it was only being operated as a matter of service to the people. Is there anything further on dieselization?

Mr. FISHER: I would like to ask Mr. Gordon this question: at the hearing we had on the freight rates, there were several suggestions made. I do not know if your officials took note of them at the time; but there was a suggestion that there was a certain stubbornness or blocking on the part of the Canadian National Railways with respect to consideration of actually using coal facilities. They seem to be single minded in pushing through diesel, and did not give enough consideration to the use of coal. Can you briefly review the sequence of events, because I think it is still a standing grievance in the maritime region, with their great coal resources in that area, that you have turned away from them.

Mr. GORDON: You will also find that in the maritimes in the operation of their coal mines they are using diesel locomotives right in their own works. That is the best answer I can give to that. We made it perfectly clear that technological change is to complete dieselization, and that it will eventually mean no use of coal at all. We have no coal-burning steam locomotives in use in the Atlantic region.

Mr. FISHER: What are the future prospects of electrified lines?

Mr. GORDON: That would depend on the technological possibilities which may arise out of atomic energy. We do not see anything immediately. Dr. Solandt is interested in that subject and he told me recently that he does not see any immediate prospects which would make it economically feasible.

Mr. DRYSDALE: You mentioned 303 units. I gathered that they are mostly railroad switchers, and that the average cost would be about \$70,000 per unit. Is that typical of your average cost?

Mr. GORDON: Oh no. There is something wrong with that figure. I can give you the approximate cost of any type of unit that you could mention.

Mr. DRYSDALE: Perhaps I should ask one or two questions, and in order to save time you might file the answers to them later. I am interested in the total number of diesel units that have been acquired to date and in a breakdown as to the type and the manufacturer of the different units.

Mr. GORDON: Would page 36 not answer your question? It is all summarized there.

Mr. DRYSDALE: No, it does not give the manufacturer of the units. I am interested in that point to tie in with another aspect as to the location of your major maintenance shops. I am interested in the manufacturers from that view point. I wondered if there was very much difference among the various locomotives—for example, diesel locomotives, and if having different types would perhaps increase the maintenance costs?

Mr. GORDON: Yes, it would. We have done our best as purchasers to try and standardize the types as much as possible. In recent years there are only two suppliers of diesel locomotive types that we have been purchasing from.

The Canadian Locomotive people at Kingston, Ontario can also produce diesel locomotives, but in recent years we have found that their prices are not competitive. So, as a matter of fact, we have been buying from only two manufacturers, the Montreal Locomotive Works, and General Motors.

Mr. DRYSDALE: Where is the location of your major maintenance shops? You mentioned Montreal, Edmonton and Moncton. I presume there is probably one at Winnipeg?

Mr. GORDON: Yes. I can give you that in a minute. We went through all this yesterday when I placed on the record a list of all our motive power back shops. Is that not what you have in mind?

Mr. DRYSDALE: Yes.

Mr. GORDON: Eventually we will have back shop facilities at St. John's, Newfoundland, Moncton, New Brunswick, Montreal and Winnipeg. Those are major back shops; and we will also have a lot of smaller shops. But those are the major ones.

Mr. DRYSDALE: That would mean that according to your procedure, when a diesel locomotive breaks down let us say in the Vancouver area, it would have to be dead-headed back to Winnipeg for repair?

Mr. GORDON: No, no. Those are major repair shops for complete overhaul. We have a number of major running repair shops located all across the system. And if it is a normal running repair which is required, there will be facilities to take care of it at almost every divisional point.

Mr. DRYSDALE: What would be the procedure if a diesel locomotive should break down and be taken into a maintenance point? They would see if they were able to handle it, and if they could not, then it would have to be dead-headed?

Mr. GORDON: That is right, to a major shop. A major wreck would almost certainly have to go to a major back shop.

Mr. DRYSDALE: Have you overcome what was considered to be a difficulty in your approach to your dieselization program? I understand you dieselized the main lines, which would give you your coast to coast transportation, whereas the Canadian Pacific Railway tended to dieselize by areas.

Mr. GORDON: We are over that stage now. We are at the final stage of complete dieselization. We started on a different basis than the Canadian Pacific, but we finally came together. We started on dieselizing the service, whereas the Canadian Pacific started with dieselizing regions on a geographical basis. We went at it from the standpoint of deriving the biggest savings out of any particular service, but we have passed that stage now.

Mr. DRYSDALE: You had a problem of increased cost because of dead heading locomotives to a major centre?

Mr. GORDON: In the earlier transitional stages, yes, but it would not apply now.

Mr. CHEVRIER: You have dieselized your operation on the south shore opposite Montreal. Has your industrial research division done anything to extend the line to the development that is proceeding now on the south shore comparable to what the Canadian Pacific Railway has done, for instance?

Mr. GORDON: You mean by that, in attracting industry to the area?

Mr. CHEVRIER: Not so much in attracting industry as in going to where industry is being attracted now.

Mr. GORDON: I know that we have very close relations with all potential industries in the area, and we always strive to service industry as it comes in.

Mr. CHEVRIER: I know that it is the policy of the railway. But has the railway extended its south shore service?

Mr. GORDON: You mean in point of trackage?

Mr. CHEVRIER: Yes.

Mr. GORDON: I do not recall any need for it. The existing trackage is already there to service any industry.

Mr. CHEVRIER: Even down as far as Contrecoeur?

Mr. GORDON: We have a line there, while the Canadian Pacific does not.

Mr. CHEVRIER: The Canadian Pacific has a line in the Côte St. Catharine lock area?

Mr. GORDON: Yes, but we are not attempting to invade each other's areas. In other words, if the Canadian National Railways does not have a line into an area, while the Canadian Pacific does have a line into that area, and that line is adequate to service industry, we do not, as a matter of policy, build unnecessary lines just for the purpose of having two railways in there, so long as the railway facilities already there are adequate to service the area. That is done under the general arrangement of the Canadian National-Canadian Pacific Act. We do not build unnecessary lines.

Mr. CHEVRIER: The purpose of my question at the beginning was to inquire if, in the development in that area, you had found a necessity to extend your trackage or your line?

Mr. GORDON: No, sir, we have not.

Mr. HORNER (*Jasper-Edson*): Does Mr. Gordon or his officials have any figures to show how much diesel oil is used in a particular year?

Mr. GORDON: I suppose I can figure it out.

Mr. HORNER (*Jasper-Edson*): How much of it is Canadian?

Mr. GORDON: I do not know that. I know we just buy from the oil companies.

Mr. HORNER (*Jasper-Edson*): On a tender basis?

Mr. GORDON: Oh yes, open tenders to all the major oil companies. That is the regular procedure.

Mr. CHEVRIER: In Canada.

Mr. GORDON: Our fuel oil for the year 1958, the gallonage was 65,373,080 and the value would amount to \$3,064,366 on an average price of 4.69 cents.

That is the fuel oil. Now, of the diesel oil only, we had 162,000,632 gallons with a dollar value of \$22,046,780 with an average price of 13.61 cents. That is for the year 1958.

The CHAIRMAN: Any other question on dieselization?

Mr. FISHER: Could you give an indication or have you any idea of how far your eastern purchases go west? The western oil would be used down so far?

Mr. GORDON: Well, the procedure there is that we call for tenders from all the oil companies and give the region for delivery, and they quote us a laid down delivery price at certain areas across Canada. That is all we know about it. Where the oil comes from we do not know, or how they get it there. That is their job.

The CHAIRMAN: Any other questions on dieselization? If not, we will proceed to rolling stock.

Mr. FISHER: I am interested on where you stand now in your program for cars for pulpwood?

Mr. GORDON: We have not made much progress in that. We have designed a pulpwood car which in our tests we have found quite satisfactory, we think; but the pulpwood companies have not been able to meet conditions which would satisfy us in regard to the usage of the car. We made a proposal to them generally speaking that if those cars were produced specially for their requirements then they must give us an agreement in regard to the usage over an annual basis. That is still under discussion and has been under discussion for some time, but we have not reached a practical agreement yet.

Mr. FISHER: Where are those cars in use which you have developed?

Mr. GORDON: They are not in use at all. This is an improved type of car. It is only a prototype at the moment. I am talking about the new pulpwood car.

Mr. SMITH (*Simcoe North*): What is the approximate cost of a railiner?

Mr. GORDON: I will give you that.

Mr. SMITH (*Simcoe North*): One of the dayliners.

Mr. GORDON: The approximate cost is about \$230,000.

Mr. SMITH (*Simcoe North*): And what is the passenger capacity?

Mr. GORDON: It varies—around 80.

Mr. FISHER: Well, on these pulp cars, you are shipping a fair quantity of pulp on flat cars and some in box cars?

Mr. GORDON: Yes, this car I was referring to is a specialized type. We have designed it but it is not in operation and the design is not approved yet. It is still in the discussion stage.

Mr. FISHER: Insofar as you have been able to estimate, I guess the old type of facility will continue to be used until you can get some hard and fast agreement with the companies?

Mr. GORDON: That is correct.

Mr. FISHER: On this question which is related to rolling stock, you have worked out a number of agreed charges insofar as shipping the finished product is concerned; but I have not been able to find on the record any agreed charges for shipping pulpwood, at least in our region. What seems to be the block there?

Mr. GORDON: Well, largely that it is not necessary. What I mean by that is that where pulpwood is normally shipped by rail it is the only way that they can ship it.

Mr. FISHER: You mean that the railways always lose out where there are alternate means of transportation for pulpwood?

Mr. GORDON: If there are alternate means of transporting pulpwood we usually lose out for the reason that the major alternate means of transportation is stream-driven pulpwood. We cannot compete with stream-driven pulpwood.

Mr. BROOME: One question in regard to your refrigerator cars concerning mechanical refrigeration. I know there are a lot of tests taken in regard to shipping fish out of Prince Rupert to the eastern market. Would freight refrigerator cars be used in that, or do you have any particular passenger cars with good mechanical low temperature refrigeration for shipping the fish?

Mr. GORDON: Well, we have been providing equipment for the shipment of fish.

Mr. DINGLE: It is not the same car. The aluminum car you mention is for freight only. Then we have a car that we handle fish in from Prince Rupert. We have done some experimenting with a refrigerator car cooled by mechanical means.

Mr. BROOME: And those tests were quite successful, so I understand?

Mr. DINGLE: Yes, but they are hard to maintain and pretty costly.

Mr. FISHER: Two questions. One is in connection with the cleaning plant that you have for rolling stock at the Lakehead. Is there any possibility of that being expanded at all?

Mr. GORDON: Not as far as I am aware. I would not think it would be necessary.

Mr. FISHER: The other question: you mentioned yesterday the steel wheels and their impact in connection with rolling stock. Can you give us an indication of the implication and how far you are along with that program?

Mr. GORDON: We have just got nicely started on it. We have not worked out a program actually. It depends largely on the availability of supply, but Mr. Dingle tells me his plan is to install wheels at the rate of about 70,000 or 75,000 per year.

Mr. FISHER: And what is the great advantage of the steel wheel?

Mr. DINGLE: Well, they have a greater wearing quality and do not require to be changed as often as the iron wheel.

Mr. FISHER: And you will be able to have a higher speed train?

Mr. DINGLE: Yes, higher speed train.

Mr. CARTER: Are they easier on the track?

Mr. DINGLE: I don't think so, sir.

Mr. FISHER: What is the relationship of bearings to the wheels?

Mr. DINGLE: Roller bearings as against friction bearings?

Mr. FISHER: Yes.

Mr. DINGLE: Well, the roller bearing is to be preferred. We have less trouble with them; but they are very costly, and we have no set program for equipping our freight cars with roller bearings. All passenger cars are being so equipped.

Mr. FISHER: You mentioned a freight refrigeration rather than a passenger refrigeration. Is that one of the distinctions, one of the differences?

Mr. DINGLE: Well, there are two types of cars. One car is suited for passenger train operation and the other for freight train operation.

Mr. FISHER: And this is one of the differences, the one having friction bearings and the other roller bearings?

Mr. DINGLE: Well, it is in this way, that we do not permit the freight equipment to be handled in passenger service.

Mr. FISHER: What I am curious about is this. I gather from the increase in speed that you hope to take advantage of some changes, and I just wondered whether this is one of the changes that will be a factor?

Mr. DINGLE: Well, mind you, a train on steel wheels and roller bearings is certainly a factor in speed.

Mr. FISHER: It would also have an effect on cutting down the number of repairs to be made, would it not, across the system?

Mr. DINGLE: Yes.

Mr. GORDON: That is one of the things that comes down to an analysis of the economics. That is, the roller bearings are much more costly and we have to analyse it to determine whether the life we get out of it, and their availability for high speed operation, produces a service factor that more than offsets the additional cost and the increase in maintenance and things of that

Mr. FISHER: But the two things, the steel wheels and roller bearings may have an effect on the opportunities for employment across the system as it exists now?

Mr. GORDON: It could, yes.

Mr. CREAGHAN: Primarily how many of these double deck automobile transporters have you? Your inventory does not show it?

Mr. GORDON: Does it not show on the inventory?

Mr. CREAGHAN: No.

Mr. GORDON: I thought it did. We have got 125 on order and we have 25 actually in the service.

Mr. CREAGHAN: Is it a longer unit than the ordinary box car?

Mr. GORDON: Yes, it is and it is higher too.

Mr. CREAGHAN: I know it is double deck. About how many standard cars can you put in them?

Mr. DINGLE: One is eight, and we are building some for six.

Mr. FISHER: With the opening of the seaway there is a possibility of European cars going right through to the Lakehead in fairly large shipments. Now, it was fought out several years ago between the railways, this question of lake carriers carrying automobiles, and were not the railways successful in blocking the institution of an additional....

Mr. GORDON: It was a rate case, as I recall it. I remember the case very well as a case, but I cannot remember the details of it. I am pretty sure it was a question of a tariff to which we objected.

Mr. FISHER: Well, will this new type of car enable you to compete for the western traffic insofar as competition with boats is concerned?

Mr. GORDON: Yes, we have found that these new type of transporters are very popular with the car manufacturers and that is why we have 125 new ones on order. It will meet our competitive position in that respect. Whether it will be a direct improvement on the competitive factor of the seaway, remains to be seen. The transporter was originally designed as a competitive offset to driving the car on the highway.

Mr. FISHER: And you have been successful there, have you not?

Mr. GORDON: Yes we have.

Mr. FISHER: Well, how much did you lower costs of, say, shipments from the factories in the east to Winnipeg?

Mr. BROOME: Where you do save is in the manufacturers' costs of loading the cars?

Mr. GORDON: Yes and we save by carrying eight instead of two in a box car.

Mr. BROOME: The manufacturer has a lot of work to do in loading a car.

Mr. GORDON: I have not got that figure available Mr. Fisher, but it did substantially lower the transportation costs for the manufacturers.

Mr. CHEVRIER: I see you have now started an experiment with the new aluminum refrigerator cars?

Mr. GORDON: Yes.

Mr. CHEVRIER: Has your experiment advanced far enough to enable you to give the committee a statement on how successful the operation is?

Mr. GORDON: They have been successful. We are now in discussion with the company on the maintenance charges and there are some views about that that we still have under discussion. In fact, I happened to get a letter just this morning from the president of the company.

Mr. CHEVRIER: What company?

Mr. GORDON: The Aluminum Company. He expressed his satisfaction that he could meet the point that we brought out in the matter of corrosion resistance and things of that sort. Generally speaking, we regard the experiment as a success.

Mr. CHEVRIER: It is much lighter?

Mr. GORDON: It is much lighter.

Mr. FISHER: I think the railway should be complimented for what it has done to the Ottawa-Toronto train and I am curious as to where you got those particular cars that you are using, this is, roomettes. Did you pull them in from some place else in the system, or make a purchase?

Mr. GORDON: No, it was a rearrangement we were able to make by reason of the purchase of some 50 cars which we got from the New York Central. The New York Central, going out of the passenger business, made them available at a remarkably low price. As a matter of fact, it was about \$10,000 each as compared to the original cost of \$250,000. They had about eight years' life left. The Canadian Pacific Railway bought some too, so by that purchase we were able to rearrange the equipment, on a number of our routes. While I will not say that those particular cars got into the area, we were able to release cars and make some adjustments.

The CHAIRMAN: Any other questions? If not we will discuss Service Improvements. We have been dealing with rolling stock. Any questions?

Mr. CARTER: I have several questions on this which I have been waiting for. I would have liked to asked them on paragraph 9 but first I would like to express appreciation of the work which the *William Carson*, your vessel, has done this year in spite of the heavy weather conditions. I wonder if the president could tell us how many chartered ships have now been disposed of and what has been the saving in personnel both in Port aux Basques and Sydney due to the entry of the *Carson* into service?

Mr. GORDON: That is one of those variable figures again. Depending on the traffic and the weather conditions we used to be chartering six to eight ships in the course of a season's operations and right now we are hardly chartering any, just an occasional one or two. We regard the *William Carson* as almost self-sufficient in that respect and it would be an unusual circumstance now where we needed to charter ships.

Mr. CARTER: Have you any idea of the saving in charter ships as a result of using the *Carson*?

Mr. GORDON: We have not got it now. I would be glad to analyze it.

Mr. CARTER: I would be interested in knowing that. This is the first winter in history when a regular service has been maintained between north Sydney and Port aux Basques.

Mr. GORDON: Yes, I think that is right. There have been interruptions almost every previous year but the *Carson* has kept plugging right through and not only has she got through on her own but she has made it possible for other ships to get through.

Mr. CARTER: That is why we appreciate it.

Mr. GORDON: She has done a remarkable job and in every way has more than justified the design of the ship and the manner in which it was placed in service.

Mr. CARTER: Perhaps I should address this jointly to Mr. Gordon and to the minister. I am interested in the progress being made on the new coastal boats and particularly the design for the Argentinia bay service. I would like to know if possible what date this boat is expected to go into service.

Mr. GORDON: I do not know that I can answer that.

Mr. HEES: I do not have a progress report on the building of those ships. I can get it for you this morning if you want.

Mr. GORDON: My understanding, Mr. Minister is that the tenders were due to be called. If they are not called they are almost on a point of being called. That is the current position of it.

Mr. HEES: I would like to check that for you.

Mr. CARTER: No keels have been laid yet?

Mr. HEES: As I say, I would like to check these details. I will give them to you as soon as I have talked to the Department.

Mr. CARTER: I think last year and the year before Mr. Gordon referred the committee to a Canadian National Railways committee which made a survey of conditions in Newfoundland and made certain recommendations. Among the recommendations was one to put express offices in some of the ports served by the coastal boats. I wonder what progress is being made as to that?

Mr. GORDON: Your point is about the express offices, is it?

Mr. CARTER: Yes, for the coastal boats. I am particularly interested in those on the south coast. I do not want to hold up the committee—

Mr. GORDON: Well, we are all convinced we have that information but for some reason I cannot put my hand on it here. Will you leave it with me and I will have it looked up.

Mr. CARTER: Yes. Just one more question. The rail passenger service between St. John's and Argentia where passengers go out to meet the boats is perhaps one of the worst services we have now. A passenger coach is hitched on to a freight train and it leaves, I think, around eight in the morning. It is only 80 miles but it takes about six hours to get out there. There is no place to eat en route, and I was wondering whether something could not be done to improve that service.

Mr. GORDON: Is it the only access from St. John's to Argentia.

Mr. CHEVRIER: Invite the minister down.

Mr. CARTER: The only way you can do it is to disconnect the freight or put on a railiner. A railiner would give much faster service.

Mr. GORDON: I am making a note of it and we will have a look at it. If that is the worst service now I am glad to hear it because I call your attention to the *Daily News* article headed "C.N.R. Contributes Extensively in Course of Decade". This is April 1959.

Mr. CHEVRIER: Let us see the other side.

Mr. GORDON: This one here "Public Welfare Service"?

Mr. CHEVRIER: No.

Mr. GORDON: This is it and the whole thing is a eulogy to the point where if I were not a very modest man I would get swell headed.

Mr. CHEVRIER: May I follow up Mr. Carter's questions by one other. I note that the "*Carson*" has now been in operation for seven months?

Mr. GORDON: Yes sir.

Mr. CHEVRIER: Can the president give the committee an idea of the dollars and cents results of that operation during that time?

Mr. GORDON: I doubt if I can break it down accurately. I can give you the bare figures.

Mr. CHEVRIER: And how does it compare with the one or two ships that were in operation between North Sydney and Newfoundland before the "*William Carson*" was put into service?

Mr. GORDON: The "*Carson*" went into regular service between North Sydney and Port aux Basques August 26, 1958, and in that period the operating revenue was \$256,504, the operating expenses were \$807,395 showing an operating deficit in that period of \$550,891.

Now, we have other figures in regard to our other operations in and out of Argentia; but since they are no longer pertinent—

Mr. CHEVRIER: But you say here in the report on October 5 the "*Carson*" began scheduled service.

Mr. GORDON: Began "scheduled" service, yes.

Mr. CHEVRIER: Well, what I would like to know is from October 5 until now have you a statement up until, say, the end of April?

Mr. GORDON: No, I have only got a statement showing from the point she started going into service. We carried on a preliminary service on an experimental basis.

Mr. CHEVRIER: Then what you are giving me is what?

Mr. GORDON: August 26 until December 31. It would not be far out from the point of view of the railway because the only item would be the August 26 to October 5 figure, and the tendency would be to increase the expense because this was on a testing basis and was just taking freight business.

Mr. CHEVRIER: The point I am trying to get at is this: how will the operation of the *Carson* compare with the service before she was put into service?

Mr. GORDON: That would take an analysis. I do not know if we have it. I have a note here that on the date you mentioned in the corresponding period in 1957, that is, October 6 to December 31, a total of eight vessels in the Cabot straits service carried only 31,882 tons, averaging 371 tons per day. The "*Carson*" transported between October 6 and December 31 approximately 7,000 more tons of freight than the combined cargoes of eight vessels in that period in 1957, which is an increase of nearly 22 per cent. I have not the dollar figures of that but I will try to get them for you. Then that is not a full comparison because it was still a preliminary service.

Mr. CHEVRIER: Are you able to say that in due course this will be a profitable service as compared to what the previous service was?

Mr. GORDON: It will certainly reduce the cost. Whether it will get on a profitable basis remains to be seen. I doubt it.

The CHAIRMAN: Any further questions?

Mr. CREAGHAN: On the Ocean Limited, as far as I am concerned it is a wonderful train now, since you have improved operating time in the last year or so in reducing the running time. I wonder if you or your staff have any predictions of any possibility of it even being shortened again. You have got it down now to twelve hours.

Mr. GORDON: I thought that we had passed the passenger service.

Mr. CREAGHAN: No, this is a service improvement. It is under section 61.

Mr. GORDON: We have no further improvements in running time in mind. We think we have got it at a point where we are doing as well as we can.

Mr. CREAGHAN: Well, how do you explain that it runs westward quicker than it runs eastward?

Mr. GORDON: Probably the wind!

Mr. CREAGHAN: No, I do not think the wind is a factor.

Mr. GORDON: Well, that is an operating matter.

Mr. DINGLE: It is a matter of schedule. There is no reason why there should be any difference. It is the work that has to be done one way as against the other.

Mr. GORDON: Is it not because there may be longer or more frequent stops?

Mr. DINGLE: Yes, the eastward train has priority over meets and so on. In other words, priority goes to the train going east and the fellow going west has to pull off and wait.

Mr. CARTER: My final question is, has any consideration been given to providing cafeteria cars on the Newfoundland railways?

Mr. GORDON: No, not of the type you see on the mainland, because the cafeteria cars have been cars that have been reconstructed and reconditioned

in our own shops, and we have not any surplus cars in the Newfoundland service of the narrow gauge that we can use for conversion purposes. It would mean buying new cars and we are not in the frame of mind yet to justify that cost.

Mr. HORNER (*Jasper-Edson*): In regard to speed, there are two or three questions I would like to ask. Some of the railway men in Jasper and Edson tell me if they were allowed to they could cut a substantial amount of time on the Edmonton-Vancouver run.

Mr. GORDON: That is a normal thing in railroading. The reason for that is, when you set down a time schedule you have to set it on the basis that you arrive at your main city point at a specific time. That is where the on-time performance is important. We have to allow a certain margin in between there so that under adverse conditions we can make up time; so that when you are running under the most favourable conditions you can quite often do better. Those figures are what might be called the average probability of getting in on time.

Mr. HORNER (*Jasper-Edson*): Is there anything to the fact that they seem to have the impression they are limited by the time that the Canadian Pacific Railway can make?

Mr. GORDON: I do not think a year has gone by that I have not had occasion to deny that statement and I deny it again.

Mr. HORNER (*Jasper-Edson*): One other question, and that is with relation to your train from Capreol into Ottawa here. Is there any reason why it has to dawdle along?

Mr. GORDON: The same reason. We are most anxious to arrive in Ottawa at our scheduled time. We push the train along to make sure the probabilities are that we will get in on time, and under certain conditions we have arrived at Capreol on a basis that we can make our time faster into Ottawa. But when we do that we have to dawdle along so we will not get in ahead of time. One of the most disorganizing things that can happen on any railroad is to get in ahead of time and foul everything else up. It is not proper under the operating rules, as a matter of fact.

The CHAIRMAN: Any other questions?

Mr. FISHER: Mr. Chairman, the local newspaperman in Geraldton has been embarking on a campaign to increase the use of the railway, because he says it is our railway. He has some very complimentary things to say, but he has two criticisms:

First, we make a big complaint about the station at Longlac. For a transfer point this station is ridiculous. The rest room was so cold that you could see your breath. The smell left much to be desired.

Mr. GORDON: Desired in what way?

Mr. FISHER: Have you been in the station?

Mr. GORDON: I have. I am wondering what kind of a smell he would like!

Mr. FISHER: I think you know what I mean.

We have never seen such conditions in any other public place in Ontario. It is a wonder that the Department of Health has not closed the place up.

Why cannot there be an improvement made in that particular station? It is a transfer point. I have jammed in there myself with fifty people when the main line trains have been a bit late and when it was 40 degrees below zero.

Mr. GORDON: I am personally inclined to agree with you, Mr. Fisher. That is one of our bad points and the question is just a matter of cost. Mr. Vaughan, who is in charge of our station committee that examines all these places, tells me that Longlac is currently under examination.

Mr. FISHER: There are no alternate places to go there.

Mr. GORDON: That is right; I am not at all proud of what we have there. It is just a matter of cost.

Mr. FISHER: The other general comment this man makes is that occasionally in the dinette cars and other cars you will see the serving men, the waiting staff, spic and span, whereas you will see the men who work in the kitchen drifting around unshaven and with dirty uniforms.

Mr. GORDON: Is this a recent observation?

Mr. FISHER: Yes.

Mr. GORDON: Because it is along the lines I mentioned of toning up our crews on the passenger trains. I think we have established quite an improvement on that. I do not know if you saw the advertisement that went out and also the advertisement that was issued by the unions themselves.

Mr. FISHER: Yes, I saw it.

Mr. GORDON: They issued a call. To the extent that supervision can accomplish something, we are doing it; but you will always find individual instances where you get a fellow who will not just measure up and then when we fire him we have a grievance. We have to sit down with the union representative and explain as management why we have the right to fire someone.

Mr. FISHER: Is it true that there has been introduced in the Montreal-Toronto service a rule that keeps coach passengers out of the dining car at certain times?

Mr. GORDON: No, that is not true.

Mr. FISHER: I would like to ask a question in connection with these different meal services. Last year you filed a breakdown of the cost, which indicated that you lost on all this type of service, but that you lost less on the dinettes.

Mr. GORDON: Yes.

Mr. FISHER: I wonder if you are in a position to file any of those figures in order to give us an indication of whether you are making any progress with that particular item.

Mr. GORDON: Yes. In 1958 on the dining, cafe and buffet cars we served 1,171,576 meals at an average revenue of \$1.777. That compares with 1957 when the number of meals was 1,686,272, at an average revenue per meal of \$1.803. So we slipped both in regard to number and average revenue.

In the dinette cars we served 531,861 meals in 1958 for an average revenue of 92 cents. That compares with 342,429 meals in 1957 at an average revenue of 99 cents; so we increased our volume in the dinette cars and reduced our revenue somewhat.

In the sleeper-grill cars, commonly known as the coffee shop, we served 305,917 meals in 1958 for an average revenue per meal of .721 cents, as against 444,119 meals in 1957 at an average revenue of 71 cents.

In the cafeteria cars 100,575 meals were served in 1958 at an average revenue of 87 cents, as compared with 57,273 in 1957 at an average revenue of \$1.02.

The total of all our meals for 1958 was 2,109,929, for an average revenue per meal of \$1.365, as compared with 2,530,093 meals in 1957 at an average

revenue per meal of \$1.484. Now, if we take that on the average loss per meal on all cars, the average loss per meal in 1958 was .847 cents, as compared with .727 cents in 1957.

The CHAIRMAN: That is 84 cents a meal.

Mr. GORDON: The average loss per meal, yes. So we lost more in 1958 than we did in 1957.

Mr. FISHER: Have you any ideas on how this could be corrected?

Mr. GORDON: When we talk about a loss, we have very much in mind that it is part of our cost of the passenger business. It is a "loss leader", as it were. It attracts passengers to the trains, and if we did not serve them, the passenger business would fall off substantially.

We have been experimenting as to how to hold these costs down, but we do not see much chance of improvement, beyond the figures I have mentioned.

The CHAIRMAN: The airlines give them for nothing.

Mr. CHEVRIER: Some of them are pretty hard to take.

Mr. GORDON: And the price is included in your ticket.

Mr. CHEVRIER: Yes.

Mr. FISHER: You have diversified this now so you have four types of meal service?

Mr. GORDON: Yes.

Mr. FISHER: Are you going to make some decision as to which would be the two preferable ones and reduce the other two?

Mr. GORDON: We have been experimenting for quite a while and testing out different types of service in different trains to see what brings the most popular response. That is why we developed these cafeteria cars. The dinette car is our innovation as well. We have these dinettes in Canada and we are trying to test them on different types of trade.

Mr. FISHER: In connection with cafeteria cars, have you experienced any difficulty in connection with jostling caused by the movement of the train?

Mr. GORDON: That is not our major difficulty; it is part of the operational situation that we meet. It depends on the class of service we put them in. We have not received many complaints in connection with that.

The CHAIRMAN: The next item is the "Montreal terminal development".

Mr. CHEVRIER: May I ask a question in connection with paragraph 66; concerning the new office building. I understand a contract has been let for the foundations. What is the present position and when is it expected the office building will be completed?

Mr. GORDON: The building foundations are about 80 per cent completed. The engineering specifications have been prepared and the contracts have been let for the structural steel. The floor contract has been awarded, and other specifications are in advanced state. All the contracts will be let in the 1959 season, with the project scheduled for completion in 1961.

Mr. CHEVRIER: Could you give us some idea of the size of the building, the number of storeys and so forth?

The CHAIRMAN: That is set out in this order item—470,000 square feet.

Mr. GORDON: The building is designed to accommodate the present office staff totalling 3,400, with a margin of 400 more for expansion.

Mr. CHEVRIER: And the number of storeys?

Mr. GORDON: Sixteen.

Mr. CHEVRIER: And with the completion of that, you will then terminate your three main buildings that were started some ten years ago on the south side of Dorchester, that is the aviation building, the office building and the hotel.

Mr. GORDON: We have given up the office building, which was going to be between the hotel and the aviation building. We came to the conclusion that that space too extravagant for a head office building for the C.N.R., and that we could fill our purpose equally as well by going to the back of the property and using the location at the corner of Lagachetiere and Mansfield.

Mr. CHEVRIER: Do you expect in due course to make use of the site between the aviation building and the hotel?

Mr. GORDON: That is under negotiation at the present time. We have a number of interested parties. It would be built by outside people on our land, and we will make a deal with them.

Mr. CHEVRIER: What will happen to your other twenty locations?

Mr. GORDON: They will become available. There was a lot of space converted into office space under the viaduct. It has not been suitable for many years. We gave a commitment twelve years ago that we would get those offices out of there, and only now are we discharging that commitment. The space under the viaduct will be used as warehouse space for railway deliveries; it was originally designed as such. But most of the other buildings are rented space which we will give up, and we believe the main office building now at 360 McGill will be available for sale.

Mr. CHEVRIER: You will move your headquarters to the new building?

Mr. GORDON: Yes. At the present time we have twenty-three or twenty-five separate addresses in Montreal.

Mr. CHEVRIER: Well, your main office building is certainly a dilapidated structure.

Mr. GORDON: Yes, it is; I think it was built in 1899.

Mr. FISHER: Mr. Chairman, as there is just five minutes to go until caucus, could we adjourn now?

The CHAIRMAN: I thought we had decided to go until eleven o'clock.

Mr. CHEVRIER: I thought we were going to sit until one o'clock!

The CHAIRMAN: It is all right with me. The rest of my friends have a caucus meeting.

Mr. FISHER: We know you want to get out to hear who these parliamentary assistants are.

The CHAIRMAN: If I thought I was going to miss anything like that, I would adjourn right now. Could we deal with another item or two? The next item is "Integrated Data Processing".

Mr. FISHER: I am curious about the fact that the waybill analysis seems to be used by everyone to get a picture of railway traffic costs and that sort of thing. In regard to this integrated data processing you are introducing in your freight program, are you going to be able to extract from it similar kinds of information, or possibly more?

Mr. GORDON: Mr. Toole is our expert in this field; perhaps you will deal with this, Mr. Toole.

Mr. TOOLE: Yes, we expect to extract even more information than comes from that waybill sample, and as the capacity of our machine rooms take hold, we will have more meaningful types of statistics. This is due to the machine being able to get at the information on the waybill more quickly than you can by use of this statistical sample.

Mr. FISHER: Is the C.P.R. in the same field, with the same ideas?

Mr. TOOLE: I do not know whether their ideas run similar, but they are working on it.

Mr. CHEVRIER: The information is available to them as it is to you, is it not?

Mr. TOOLE: Yes.

Mr. FISHER: Well, if they have this kind of procedure—

Mr. GORDON: Yes, they are going on.

Mr. FISHER: There will be a great deal of valuable information; you will want to restrict some of it because of your competitive position. Would you welcome the opening up of some of this information to the Board of Transport Commissioners or do you expect that such requests will come forward?

Mr. GORDON: There is a major point about which we must be careful. This electronic data processing device is a remarkably flexible type of operation and people become fascinated with what it can do. If we are not careful we will find ourselves making an analysis of everything under the sun, including how many redheaded babies exist in 1974. We have to be careful that we hold down the analysis to a point of practical use and make sure we provide it only for a purpose that is really needed for managerial control; otherwise our costs will become astronomical. Do you not agree with that, Mr. Toole?

Mr. TOOLE: Yes, I agree. We do a lot of work and we exercise a great deal of control on the output of this machine.

Mr. FISHER: Have you had requests from the Board of Transport Commissioners to provide them with any information?

Mr. GORDON: Not by reason of this machinery.

Mr. CHEVRIER: In the study that was made by the Board of Transport Commissioners was not the information obtained from the railways first and foremost in order to develop a study of that waybill?

Mr. TOOLE: They sent people in, and used our people.

Mr. CHEVRIER: And studied examples of these waybills from one end of the country to the other?

Mr. GORDON: My recollection is that in the course of giving evidence in the committee on the \$20 million subsidy, I remember reading the evidence where Mr. Knowles referred to his ability to run through the cards. That means he has punched cards on one of these mechanical systems and by manipulation he can get certain types of information. The evidence also indicates the information the Board now has was secured by the Board itself from the records provided by the railway.

Mr. FISHER: The trucking interests are also using this waybill analysis information. I wonder if you feel there has been any—I will not say unfair use of it; but is it statistically unsound?

Mr. GORDON: That is the reason we are reluctant to have the statistical analysis of our business exposed to our competitors, when we do not have equal access. If we are reluctant at some time, it would be because of competition.

The CHAIRMAN: Gentlemen, we will meet, as planned yesterday, immediately following the orders of the day. The meeting will be held in this same room.

Luncheon adjournment.

AFTERNOON MEETING

WEDNESDAY, May 6, 1959.

The CHAIRMAN: Gentlemen, I see a quorum. Let us proceed. We are at research and experimentation. Are there any questions under that heading?

Mr. DRYSDALE: Mr. Chairman, may I raise a question of privilege in connection with an article in this morning's edition of the *Montreal Gazette* by Mr. John Leblanc. It is headed "C.N. Plans Expanded Trucking". There are some comments on a discussion which Mr. Gordon and I had yesterday concerning agreed charges, and it says:

Mr. Gordon defended CNR freight rate reductions aimed at meeting 'challenges' of trucks against suggestions by Committee Member John Drysdale (PC—Burnaby-Richmond) that the publicly-owned company was cutting rates below the level where they were compensatory to the CNR.

And then in brackets it says—and this is the point I wish to challenge:

(Federal legislation says that all freight rates must be compensatory—that is, give the railways at least their out-of-pocket expenses.)

I felt that this interpretation in the *Montreal Gazette* is misleading because there is no definition in the Transport Act of compensatory rates and there is nothing which says that agreed charges must be compensatory, or which covers them as a definition and relates them to out-of-pocket expenses. That is the only point I wish to raise: that is, that at present this article gives a misleading impression.

The CHAIRMAN: You mean that the president merely says that these rates must be compensatory?

Mr. DRYSDALE: I was not challenging the president at all. I was challenging the interpretation in that article by Mr. John Leblanc when he said that federal legislation says that all freight rates must be compensatory—that is, give the railways at least their out-of-pocket expenses. I say that the legislation does not say that. Perhaps it is a question of interpretation.

Mr. PASCOE: Is it a question of privilege?

Mr. FISHER: There would be, if he wanted to call the reporter to the bar of the committee.

The CHAIRMAN: I think your purpose has been served, Mr. Drysdale, by your putting it on the record.

Mr. DRYSDALE: That is all I wanted to do.

The CHAIRMAN: Mr. Drysdale has gone on record. I think that rather than the reporter being called to the bar, he might be forgiven, because I have even known—despite how accurate they usually are—I have known greater mistakes to be made by other reporters.

Mr. FISHER: You have been in the horse racing business.

The CHAIRMAN: I think that point is well taken.

Mr. FISHER: In connection with paragraph 74 of the annual report, the point which bothers me is this: I understood that this associate committee on railway problems was only formed in March, 1958. Does this indicate that it has already carried out two programs, one on railway trucks and the other on gas turbines?

Mr. GORDON: It is not indicated so, or that the studies are completed, but merely that we were able to form an association with the National Research Council to look into a number of questions jointly with us; and we also have the Canadian Pacific Railway in association on these problems. We are merely indicating that the studies are being carried on.

Mr. FISHER: This morning I thought we had an indication that there was an experiment in gas turbines.

Mr. GORDON: Mr. Chevrier was referring to a specific matter that we understood between us, and which had to do with the Mordell experiment at McGill university. As far as I am aware that experiment has been discontinued.

Mr. FISHER: I know it has. But what is this particular gas turbine that this committee is working on?

Mr. GORDON: Are you referring to paragraph 74?

Mr. FISHER: According to the National Research Council report there are two problems being tackled, one on railway freight trucks, and the other on gas turbines.

Mr. GORDON: Where did you get that information?

Mr. FISHER: From the National Research Council annual report.

Mr. GORDON: The only studies I am aware of at the moment, projects which are immediately under way, are a research project of a fundamental nature to study the design of freight car trucks, that is, engineering design features, in order to provide low cost truck performance and improve the riding qualities of the car; secondly, a study having to do with a substitute fuel for diesel locomotive engines. We are trying to find out whether diesel fuels currently in use can be improved from a cost standpoint, and so on. The third study is on air brake system performance, with research on it to improve the function and reliability of the air brake system, including some effort to overcome deficiencies, particularly under winter operating conditions. The fourth study is on a question of power sources for isolated places. As it stands now, the provision of a small amount of electrical energy is very costly at points remote from electrical power supply lines. So they are trying to see if they can develop some alternative means of providing electrical energy under those circumstances which may involve the investigation and use at least of atomic-powered electrical generators.

Those are the only four studies of which I am aware. It may be, as Mr. Vaughan informs me, that the Mordell studies at McGill university have broken down in regard to the difficulty in disposing of residual ash; and it may be quite likely the case that the National Research Council has taken it over independently—I mean the experiment at McGill university. Probably that is what the reference is intended to mean, but it has not been done in conjunction with ourselves. Dr. Solandt was interested in the project.

Mr. FISHER: I think everyone is very pleased that you have someone of the calibre and stature of Dr. Solandt working with you. But I wondered about this particular committee. Is it a fact that since the Canadian Pacific Railway is in it with you, that does not restrict you, for example, from giving some of the research work to the National Research Council on a contract basis, and so on?

Mr. GORDON: No. We would join in some projects where we have mutual interests, but it does not limit us in any way. In some cases tests might be carried out by the Canadian Pacific or by ourselves. It is a co-operative effort and there is nothing in it which will deprive the scientist of his objective approach to any of these problems.

Mr. FISHER: On the scientific side are you developing actual research facilities in the sense of laboratories and experimental rooms?

Mr. GORDON: Oh, yes, we have had that for many years. We have a lab in Montreal which conducts a great number of experiments on specific things, and we have had considerable success in a number of those items. Our experiments on the types of oils, for instance, have been watched with great interest by railways elsewhere. We have produced data in respect of heavy coil springs, and we discovered, by reason of our research work there, we were able to get the manufacturers to change the method of producing springs so we would get a much better and much longer lasting spring.

Then we have a whole series of tests in regard to specifications of materials. For example, when we even buy towels for our hotels our testing lab will take on the job of determining the thread content or cotton content of individual towels, sheets and so on. We have tests of that kind on paint and almost everything we use.

Another thing for which the research lab is very useful is examining claims that we have reason to suspect are faked or unjustified, and we can often analyze the allegation that the goods were damaged in railway transit and are able to prove that it could not have happened on the railway.

Mr. FISHER: I am sorry, I had the conception of your research as being more a coordinating and informational centre. I had not realized it had gone into these things.

Mr. GORDON: I would be very glad to invite you, sometime when you are in Montreal, to visit the lab. I think you would find it very interesting.

Mr. FISHER: I think everyone on this committee would.

Mr. GORDON: I would be glad to arrange it for any member of the committee.

The CHAIRMAN: Mr. Chown?

Mr. CHOWN: I have a file of correspondence on brake adjustments, which all developed over the last few months and has been mainly dealt with by the Board of Transport Commissioners in relation to what is called the double brake fulcrum. Could I send that file to you with my compliments, and it would in turn be referred to the department that is doing this research?

Mr. GORDON: Yes, indeed. Dr. Solandt would be very glad indeed to look it over for you.

The CHAIRMAN: Any other questions?

Mr. FISHER: This computer, mentioned in paragraph 75; was that one of the National Research Council's computers worked out here, or was it one worked out by some private research firm?

Mr. TOOLE: Actually, operational research are using the computers that are attached to the data processing centre. They do studies on various elements of railway operation and use the computer in order to assemble the statistics in the manner in which they want them for study purposes.

The CHAIRMAN: Any other questions?

Agreed to.

The CHAIRMAN: The St. Lawrence seaway project at Victoria bridge in Montreal, work proceeded on new highway approaches and lift spans to permit an uninterrupted flow of vehicular traffic over the seaway locks.

Mr. FISHER: There is one question I wanted to raise here. I have noticed some criticism in the Montreal papers of this particular bridge and what has been done may be in terms of those lines and in architectural fields and that sort of thing. Have you noticed those criticisms?

Mr. GORDON: We are very close to them indeed. We have been in touch with all the interested parties; and the arrangements that have been made on Victoria Bridge now are based on providing uninterrupted traffic flow

eventually when the work is done for the train operations, the ship operations and the highway operations. The criticisms we have heard from time to time have been largely from people who thought they had a better idea than we had; but in each case when we put it to them they have not been able to produce it.

The CHAIRMAN: Mr. Chevrier, do you intend to ask any questions on this project on the Victoria-St. Lawrence seaway, as you are from Montreal?

Mr. CHEVRIER: Yes. I wonder, Mr. Gordon, if you could tell the committee, not just why there will be so much delay in the construction of the rail aspect at Victoria bridge, but is there not some way in which the twelve weeks' delay—correct me if I am wrong, but I am going by what I saw in the press—is there not some way in which the twelve weeks' closing of one of the lanes of traffic on the Victoria bridge could be lessened?

Mr. GORDON: Well, no; to simply answer that question; but I will say that that difficulty has been very much exaggerated. The closing of the bridge will be necessary, in order to make the connection with the diversionary bridge, for a period of six or eight weeks this year. First of all I will remind you that that bridge operated for some 75 years, with only one lane, and we are only returning to that situation for a temporary period. Furthermore, the span itself is in very much better condition than before. It has been all resurfaced and we intend to operate under a fleeting process of handling certain traffic, in which way we feel that the actual congestion will be much lessened.

Mr. CHEVRIER: I realize that the condition of the two lanes upstream and downstream, is far better than it was originally, and I think the Canadian National Railways should be commended for the construction of the additional lane. Could you say how long in 1959 and how long in 1960 one of the two lanes will be out of commission?

Mr. GORDON: Yes; as to this year we estimate it will be a minimum of about eight weeks. We might better that, but we do not want to predict it except on the conservative side. As you will see, you will have further delay next year and we may have to put one lane of traffic out of commission for about six to eight months. That is just one of the things that has to be, in order to complete the seaway approaches generally. In that connection I had a discussion just yesterday concerning a proposal being made in regard to the approaches to the bridge on the St. Lambert side, which allegedly will very much improve the handling of the traffic and we are looking into that immediately. Whether it is feasible or not, I do not know.

The six or eight months' delay I mention here could conceivably be wiped out, but only at a very extravagant cost. The suggestion that has been made is to build a temporary Bailey bridge, which I think is highly impractical and would run into a cost figure of somewhere from \$1 million to \$1½ million.

Mr. CHEVRIER: Is that for the whole length of the Victoria bridge?

Mr. GORDON: Yes, and I cannot see that the amount of inconvenience that will be involved in the closing of the bridge would justify an expenditure of that kind.

Mr. CHEVRIER: There is no way of building a Bailey bridge alongside of your railway diversion?

Mr. GORDON: We have not found it so. We have had our engineers playing around with half a dozen or more suggestions, but we have not found anything that is practical except at very, very extravagant costs.

I would like to take this opportunity of stating my opinion, from what I have seen of it and the discussions that I have had, that the criticism being expressed in regard to the potential congestion is very much exaggerated and it is being expressed by a relatively small number of people.

Mr. CHEVRIER: I wonder if I can just venture this bold statement, that if there is going to be a delay next year in the operation of the Victoria bridge for six to eight months, would it not warrant the expenditure of the \$1 million or \$1½ million which it would cost to build a Bailey bridge, having regard to the tremendous amount of traffic that goes across not only the Victoria but all other bridges.

Mr. GORDON: Well, as I say, we do not think so. We think that the inconvenience to the travelling public will not be nearly as great as has been suggested, by reason of the measures we are taking. We will be taking special emergency measures for handling the traffic in the peak hours, and by handling buses in what we call a fleeting system where we will let them go one way in a rush in the peak periods; and we hope to avoid any major dislocation.

The second factor is this immediate consideration in regard to the approaches to the bridge from the St. Lambert side, on which there will have to be further discussions. We are in the midst of that now.

Mr. CHEVRIER: How is the coordination of traffic between rail and ship movements working out on the Victoria bridge?

Mr. GORDON: Well, it is too early yet for me to express a firm view. I was discussing that with Mr. Dingle just yesterday and it would seem to us so far as the mechanical devices are concerned they are satisfactory, and they will work in the way in which they are intended. We have not worked out a smooth operation yet, but we do not see any difficulty once we get the various people accustomed to the flow of the shipping traffic. We have had delays so far which, of course, is not within the spirit of the agreement, but we do not want to have to take too stern a view about that until we get it sorted out. The mechanism is there and we expect we can make it work.

The CHAIRMAN: Any further questions?

Mr. CREAGHAN: Yes; is there any financial agreement, or what sort of share-the-cost agreement have you between your company and the seaway company for this development?

Mr. GORDON: You give me the opportunity to put on the record that we hold the view that all the costs of the diversion should be on the seaway authority.

Mr. CREAGHAN: It seems reasonable they should.

Mr. GORDON: The seaway authority does not completely share that view, and there is in existence an agreement between the Canadian National Railways and the president of the seaway authority at that time whereby when the diversion bridge is completed—and we are building that, we have taken the responsibility of building it—that all costs then determined is a matter which is to be referred to the Minister of Transport for arbitration.

Mr. CHEVRIER: I wonder, Mr. Chairman, if you would allow me simply to say that what Mr. Gordon has said is in effect accurate, but the seaway authority very strongly take the view that the Canadian National Railways should pay for this additional diversion, and it is in the agreement made between the seaway authority and the Canadian National Railway which the Minister of Transport tabled in the house the other day.

Mr. GORDON: The agreement speaks for itself. It has been tabled, yes.

The CHAIRMAN: Any other questions? Now the Hudson Bay Railway.

Mr. HORNER (*Jasper-Edson*): I would like to ask Mr. Gordon what is the present status with regard to the Hudson Bay Railway? Are they meeting out-of-pocket expenses on that line—just roughly?

Mr. GORDON: Up until this entrustment, this was a separate vote of the Minister of Transport's votes, but since we have brought it into the Canadian National system we do not keep a separate record of the operations of the Hudson Bay Railway, because we treat it as a division of the railway. It is just there in the pool.

Mr. HORNER (*Jasper-Edson*): In that division does it lose more money than other divisions?

Mr. GORDON: We do not analyze by division. We do not have that kind of analysis unless we make a special review of it.

Mr. HORNER (*Jasper-Edson*): You do not have ton-mile figures on that line?

Mr. GORDON: I have ton-mile figures, but that would not tell you anything in regard to whether it is paying its way. I will see what I have here.

Mr. CHEVRIER: In regard to Mr. Horner's question, will not last year's results, the 1957 results of the Hudson Bay Railway, indicate the answer to his question?

Mr. GORDON: It would appear in the Department of Transport estimates. I have not got them here.

Mr. CHEVRIER: There is a small deficit, I think. I want to ask another question if Mr. Horner is through.

Mr. HORNER (*Jasper-Edson*): Well, if he has the figures.

Mr. GORDON: I have some figures in here that indicate the tonnage that is carried. The last figures I have are 1957, because that is the last time that it operated as an independent unit. In 1957 it indicates here that there are 688,956 tons carried, which includes the export grain. We had 55,744 passengers at that time. I have not got an analysis of what has happened since we took over. I can tell you the movement of grain, of course.

Mr. HORNER (*Jasper-Edson*): Yes, that is what I wanted.

Mr. GORDON: Well, in 1958 there were 55 ships loaded at Churchill, and there were 19,598,749 bushels of wheat exported through Churchill.

Mr. HORNER (*Jasper-Edson*): Just one more question. You have not got any figures as to how much it costs you to move that grain up there?

Mr. GORDON: Well, we are right back to the Crowsnest rates, and everything like that.

Mr. HORNER (*Jasper-Edson*): That is what I am getting at. Here is the ideal situation where the railway could find out whether the rate was compensatory or not, and I want to bring out again, perhaps as a matter of privilege, that a newspaper last night referred to the Crowsnest rates. I do not think the Canadian National should say the Crowsnest rates are compensatory until they are able to bring that forward.

Mr. CHEVRIER: Was that not done before the Turgeon commission?

Mr. HORNER (*Jasper-Edson*): No, the Turgeon commission stated they have not been able to say.

Mr. FISHER: I agree with Mr. Horner on this that, until we have something definite laid on the line, all Mr. Crump's statements and all the other statements made by railroaders should not be made until we know something more definitive on the point. We have not, so far.

Mr. GORDON: I am not responsible for Mr. Crump's statements. If you look at the record you will not see that I said anything about that.

Mr. HORNER (*Jasper-Edson*): It quoted you last night on the newscast.

Mr. GORDON: I beg your pardon, they did not quote me. They quoted me in part, and then went on and made an editorial comment by Mr. Leblanc on that particular matter.

Mr. HORNER (*Jasper-Edson*): I apologize, sir.

Mr. GORDON: Right.

Mr. FISHER: There seems to be a general story in the west that one of the hold-ups in the grain shipments out of Churchill is the actual terminal facilities there.

Mr. GORDON: I would say there is no truth in that, as far as I am concerned. You mean the terminal facilities in regard to the elevators?

Mr. FISHER: Yes.

Mr. GORDON: I have never heard that. In other words, all the wheat that can be handled on ships actually arriving there, so far as I know, have been taken care of.

Mr. FISHER: So far as you know they can handle more than 55 ships a year?

Mr. GORDON: I cannot answer in regard to the navigation facilities or the possibility of bringing more ships in. But each year the number of ships has been growing. There were only 36 ships came in in 1954 and, as I said, in 1958 there were 55.

Mr. CHEVRIER: What kind of an arrangement was made between the Department of Transport and the Canadian National Railways for the operation of the Hudson Bay Railway? Was it purchased by the Canadian National?

Mr. GORDON: Taken over on an entrustment basis, and written right into our accounts.

Mr. CHEVRIER: It is a government-owned railway now?

Mr. GORDON: That is right, you will see in the paragraph on page 21 we state the bookkeeping entry was that our shareholders—

Mr. CHEVRIER: What page?

Mr. GORDON: Page 21 of the report, right at the bottom of the page—the shareholders' equity in the Canadian National Railways was increased by \$34.7 million, representing the transfer to the Canadian National Railways.

Mr. CHEVRIER: Does it become an integral part of the Canadian government railways rather than the Canadian National Railways?

Mr. GORDON: It is in the Canadian government railways as such, and you will find at page 27 the item "Capital investment of government of Canada in the Canadian government railways \$432,549,139." It is included in that figure on the liability side of the balance sheet, page 27.

Mr. CHOWN: The premier of Manitoba at some time indicated an interest in acquiring the assets of those lines which are contained within the borders of Manitoba. Has any official or unofficial approach been made to you in this respect?

Mr. GORDON: No, none.

Mr. CHOWN: Would you be interested?

Mr. GORDON: I would like to hear it. I never know when I am interested in anything until I have had a look at it.

Mr. PASCOE: Mr. Chairman, Mr. Gordon says the facilities are fairly good at Churchill. Is there much delay in unloading cars and do they come back pretty well empty to the prairies again?

Mr. GORDON: I have not had any complaints at all about our handling of grain to Churchill. As far as I know it runs smoothly. Of course, practically all the cars are returned empty. There is very little incoming merchandise.

Mr. FISHER: In a sense the Ontario Northland would be a parallel for any plan for Manitoba to take over the Hudson Bay Railway?

Mr. GORDON: And run it as a provincial railway, you mean?

Mr. FISHER: Yes. Have your relationships with the Ontario Northland been satisfactory? You cooperate with them a great deal, do you not?

Mr. GORDON: Oh, yes, and so does the Canadian Pacific Railway. They work as an independent line and we meet them at various points and interchange traffic with them just as with any other railway.

Mr. FISHER: And it seems to be a good railway operation?

Mr. GORDON: As far as I can see, it is a very satisfactory operation.

Mr. FISHER: So there would be sort of a basis in terms of an example for negotiation in going ahead with a similar deal in Manitoba?

Mr. GORDON: If the powers that be in Manitoba can see the possibility of the same profitable operation. As I understand it, the Ontario Northland is a profitable organization.

The CHAIRMAN: Are there any further questions? If not, we will proceed with cooperation under the Canadian National-Canadian Pacific Act, 1933.

Mr. DRYSDALE: Is the cooperation now related only to the matter of pooling of train services? For example, although I cannot remember the situation, I believe yesterday you described a situation where the C.N.R. built a rail line into a particular area, and you, in your opinion, thought that when the C.P.R. built their line in it was a matter of duplication.

Mr. GORDON: That was a marginal case. Usually it would be covered under the act. If it were a clear invasion it would be examined in the light of the C.N.-C.P. act. In this case, however, it was marginal in the sense that our line came in from the north and met at the camp, and the C.P.R. line came in from the south and met at the camp. It was a question of which one of us really could claim the territory, although we got in first. There was a race as to which would get to the camp first. We felt we were entitled to it.

Mr. DRYSDALE: Is it now mostly down to a matter of train pooling arrangements?

Mr. GORDON: No, we have other pooling arrangements. We have joint terminal arrangements and quite an extensive joint effort in respect of communications, such as telegraph, microwave and things of that kind. However, the passenger pooling is a major area of cooperation.

Mr. FISHER: Last year I gathered that not as much had been done on the cooperative side on as many things as might be possible. Am I correct in that interpretation of what you said? Do you feel there is still room for more cooperation between the two lines?

Mr. GORDON: I do not recall that sort of a statement. I do not know how it was worded. In general, however, I would say our relations with the C.P.R. are as satisfactory and as cooperative as two competitors can be in a competitive position. In other words in these days we do not engage in what might be called "cut-throat competition" to the point where we hurt each other. We are strictly competitive in our struggle to obtain business from each other; but we do not do such things as building duplicate facilities just in order to get the jump on the other fellow.

Mr. FISHER: You have had discussions in so far as labour-management problems are concerned?

Mr. GORDON: Yes. In many cases we have joint labour negotiations. A good example of that is when we met our non-operating employees. We also have been discussing such things as standardization of equipment. We try to get agreement in respect of types of equipment. By standardization we can get a better price on it. There have been a number of occasions where we have joint terminals and have given each other running rights over the other's trackage in order to avoid building duplicate lines and things of that kind.

Mr. PASCOE: Is there any suggestion that the C.P.R. have running rights on the Hudson Bay line?

Mr. GORDON: To my knowledge, they have never asked for them.

The CHAIRMAN: Are there any further questions? If not, we will go on to corporate reorganization.

Mr. FISHER: What are the further steps?

Mr. GORDON: It says further progress was made and preliminary steps were taken for a further reduction. That is largely a matter of legal reorganization. It is a matter of corporate bodies swallowing each other to avoid necessity of separate books.

Mr. CHOWN: I have a general question. I have a letter here dated May 1, from W. A. Wallace, general manager of the Canadian Transport Tariff Bureau. This is in answer to a question of mine:

We feel that there should be federal rate filing for the transport industry, at least on international and interprovincial shipments. We would also recommend that representation of the transport industry should be either part of the Board of Transport Commissioners or an independent board working in conjunction with the present Board of Transport Commissioners, and in this way bring out uniform bills of lading and rules and regulations, instead of the number we now have.

I am wondering whether or not the president would comment on at least the first part of this? Do you feel there should be federal rate filing for the transport industry?

Mr. GORDON: I think that raises too broad a question for me to give an offhand answer. We do not know enough about the provincial legislation and the various kinds of complications arising out of jurisdictional problems to say whether or not it would be a practical matter. I think you would find jurisdictional disputes in it.

The CHAIRMAN: Are there any further questions? We will go to the heading of the year in perspective. We have been over a lot of this before. Would you like to have this read?

Mr. GORDON: I think I might read this.

The CHAIRMAN: How would it be if we had the president read this section? Agreed.

Mr. GORDON:

80 The financial results for 1958 must be regarded as a matter of serious concern. It is appropriate, therefore, that some comment be made on the factors which stand behind the results of the recent past and cast their shadows into the future.

81 One of the major factors has been the railway's increasing reliance, partly as a result of competitive pressures, on traffic from the nation's basic resource industries. This traffic, which accounts for the greater proportion of freight volume, tends to be highly sensitive to fluctuations in economic activity. As a consequence, even in a mild recession the railway's revenues may suffer a relatively severe decline.

82 Perhaps the most important single factor in the railway's net income position has been the continuing increase in operating costs occasioned by rising wages and material prices. During the past decade these increases in cost have far outstripped the effective revenue yield of consequential rate increases, and the very real improvements that have been achieved in operating performance have failed to check the deterioration in final income results.

83 The indirect effects of inflation on capital account have been no less serious. Not only is there a continuing gap between book value and replacement cost, when replacing assets in kind, but rising prices have made all the more costly the program of rehabilitation and modernization upon which management has embarked as a matter of both necessity and business prudence. More recently, higher interest rates have added substantially to the carrying charges of borrowed capital, and in this connection it may be observed that in the seven years since the Capital Revision Act became effective nearly 67 per cent of the CNR's capital requirements have been financed by borrowing. In consequence, fixed charges have risen from \$25.4 million in 1952 to \$46.5 million in 1958.

84 Many of these problems are common to other railways in North America, and this commentary is not meant to imply either that a deficit position is inescapable or that the major elements in the situation are beyond the control of management. In Canadian National, as in most large railways, there are continuing improvements in efficiency and a never-ending series of fresh opportunities for still further improvements. The task for the future is to readjust the railway's plant, facilities, and working force to the kind and quantity of service which the public, increasingly accustomed to a choice of alternatives in transportation, is prepared to patronize and to pay for. This task is being tackled with vigour and resolution.

Rails and Shipping

Mr. CHEVRIER: Mr. Chairman, I suppose Mr. Gordon has given more than ordinary consideration to the statement contained in paragraph 82. I wonder whether he has any suggestions, or if he would care to give to the committee any suggestions which would meet the very difficult and, certainly, not too encouraging situation that is implied in that paragraph.

Mr. GORDON: In regard to that paragraph we should keep in mind that the past decade, as I have mentioned there, has been a period of very difficult transition, with technological changes which involved the expenditure of large sums of capital moneys.

This has also been a period of a degree of inflation which has added to the difficulties, particularly when we come to replace assets which are worn out and that cannot be fully depreciated under accounting practices. In our depreciation reserves we do not have enough to provide for the new article.

There is a combination both of inflation in the price of the new article, as well as the increased cost due to technological change.

In a transitional period it is difficult to make the necessary adjustments. When you consider labour, the question is whether or not labour has been reasonable, particularly in their demands for obtaining wage increases.

Although it has been stated to the contrary, in our recommendations to any conciliation board, we have never denied that railway labour is entitled to the current market price for its services. We have always taken the position that railway labour is fully entitled to be compensated on the basis of the market price for its services.

It is only when the demands exceed what we consider to be a reasonable point, compared to other industries, that we then bring in the question of ability to pay.

We have pointed out that we are not able to pay, a premium for labour, cause of our present deficit position.

What takes place before any conciliation board or when considering collective bargaining, it is necessary to find a yardstick which will show

whether or not the railway labour force as a whole is keeping pace with the general rise in wages. There is always a difference of opinion in that respect; but it is not as bitter a difference as is sometimes stated.

In our negotiations with our labour friends, when we get into the final stages there seems to be an aura of conflict played up, as though we were constantly in dispute.

That is not the case, and if you take the trouble to read the transcript of the various conciliation boards, each party to the dispute has an opportunity to present his views on the economic situation, and a judgment is then formed.

I am hoping myself that we will soon begin to get a period of "quiet". I mean, by that, a period of economic peace, where we will have an opportunity to consolidate our position and get benefits from these huge expenditures that have been made over the last ten years.

Mr. CHEVRIER: In regard to what you have said and what is contained in the paragraph headed, "The Year in Perspective", has the refinancing act of the Canadian National Railways been of assistance in the complaints now released about the situation in 1958?

Mr. GORDON: Yes, very definitely. The point we are at now in connection with the capital revision act is that we realize that the capital revision act deal quite adequately with the past and brought us up to date, in 1952. It recognized that the C.N.R., as a system, should not be burdened with the continuation of the debts, from the bankrupt railways, which should have been written off at the time the system was formed.

Mr. CHEVRIER: There is still quite a number of those debts?

Mr. GORDON: No, I would not say that. I think the capital revision act transferred roughly \$736 million—and do not hold me to that figure, but it is within a few millions—from fixed charge debt into equity stock. I think that was a fair recognition of that debt. Other features were not taken into account and were not fully considered. Perhaps it is not realized what a huge amount of capital spending was necessary to rehabilitate this railway, to put it in a modern, up-to-date working condition.

Incidentally, in that respect, I am not talking solely about dieselization. Dieselization is the most colourful and most obvious example, but there is a great deal more to it than that.

If I may give another example, when we get down to the case of the railway in the western region alone, we found that if we are going to have a modern, up-to-date railway, one that could take the high-speed traffic and the heavier traffic that dieselization brings along with it, it would take approximately \$47 million. That figure has already gone up because of inflation, but let us say \$50 million to \$55 million. This is the cost to put our mainlines through the western region in a condition comparable to the rest of Canada, particularly in the central region.

I mention that as one item, and there are many others of that kind, where an appreciation of the difficulties of the railway, during the early post-war period, was not as keen as it might have been.

Mr. CHEVRIER: Is any consideration being given to another re-financing of the C.N.R.'s position?

Mr. GORDON: Only in respect, that under the provisions of the Recapitalization Act there are certain arrangements that were made which are due to expire in 1960 and 1961.

Mr. CHEVRIER: Yes, that is right.

Mr. GORDON: In 1960 and 1961. Therefore, in anticipation of that situation having to be faced, we are now beginning to make the kind of study that will

bring focus to bear on these factors; and over the next few years we will be making recommendations to government in that respect. Then government will decide what the best way is to approach it.

Mr. CHEVRIER: Will you have some reference to that in your 1960 annual report?

Mr. GORDON: Yes, and there is some reference to this in the auditor's report for this year which, maybe, we will be getting to in about the next five minutes!

In that report you will find the auditor has taken the opportunity of pointing out some impacts of this particular situation. There are several things that can be done, but I am not ready to make recommendations until we have had an opportunity to make a more careful study.

The CHAIRMAN: Are there any other questions?

Mr. CREAGHAN: Yes. I am wondering if the president could give us some indication if, in his opinion, there is some possibility of a surplus in the immediate future. I know we will have more technological changes in the future and more competition from truckers on the highways, as they are built, and now that the seaway has opened it is going to be more competitive with faster ships. Then there is, perhaps, the shorter working week in the future.

Mr. GORDON: Give me seven per cent more traffic and I will not have a deficit; that is all I need.

Mr. BROOME: In the four months of this year, to date, your car loadings have gone up about that much?

Mr. GORDON: Yes.

Mr. BROOME: Right now it is at the "break even" figure?

Mr. GORDON: We do not foresee we are going to improve our deficit position beyond the forecast. We have cut the deficit \$18 million from the previous year, but I do not think we are going to be able to do better than that this year. However, as I said, if we had that seven per cent continuing increase in traffic we would be able to break even, and anything over and above that would be profit.

The point contained in the second-last sentence under, "the Year in Perspective" is so important:

The task for the future is to re-adjust the railway's plant, facilities, and working force to the kind and quantity of service which the public, increasingly accustomed to a choice of alternatives in transportation, is prepared to patronize and to pay for.

At this moment, if you put it in terms of an industry, we are "over-built". Our plant is over-built. We have to consider the plant in relation to the job we have to do. It is always a matter of very agonizing judgment to determine whether or not the plant should be reduced, and whether we should accept as a fact that our traffic is permanently going to be no higher than the level it is today. I am not prepared yet to concede that, but there will come a time when we have to make a judgment as to whether or not there is enough profitable business for us in the railway; and we had better adjust our plant generally to that.

Mr. DRYSDALE: Is not your difficulty—you stated so yourself—the competitive aspect of the trucking industry, which I think is more or less, in your judgment, taking the cream off the top. The thing that worries me the most is the trend in agreed charges, because you have stated yourself they have almost doubled in a year—and those are on the low commodity items. Perhaps

we may get a preview of the proposed difficulty when we get into the \$15 million item; but your only answer by way of getting that 7 per cent back is for the C.N.R. to go into the trucking business.

Mr. GORDON: I would not accede to that all the way. Agreed charges are not all related to the low commodity items.

Mr. DRYSDALE: Of the \$58 million last year, what percentage of the low commodity items would be of the higher class?

Mr. GORDON: Do not quote me on this, but there would be a fifty-fifty break at least. Remember the point I made yesterday. The agreed charge is very often put in to retain traffic on the railways which we have not lost yet, but which we see ourselves in danger of losing; and by holding them on the railways we at least get a margin of profit in that business. If we lose it, we lose that margin of profit.

Mr. DRYSDALE: But to hold that margin of profit, it is implicit that you are losing a certain percentage of your income which you would not otherwise have.

Mr. GORDON: Yes, but the important thing is the net. The important thing from the standpoint of management is to establish whether there is a net position.

Mr. DRYSDALE: The trend appears to be that the trucking industry, by its competitive nature, as indicated in the tremendous increase in agreed charges, are eventually drawing your net income down and the only way to retaliate is for you to get into the trucking business.

Mr. GORDON: You are talking as if trucking is our only competition; that is not so.

Mr. DRYSDALE: It is one of your main competitions.

Mr. GORDON: One of the main ones is the St. Lawrence seaway; have you heard about that?

Mr. DRYSDALE: Mr. Chevrier has occasionally mentioned it to me.

The CHAIRMAN: This is all very interesting. I am glad we are arriving at the end of this in such an optimistic tone; you are all looking for a surplus.

Mr. DRYSDALE: It is related to their profit, and in the budget there is an item for \$15 million, and the guess is they are going into the trucking business.

Mr. GORDON: I will give you three figures on which you may reflect, but do not get into a debate about it. This is taken from the Board of Transport Commissioners waybill analysis figures. They are not our figures; they are their official figures which they set in 1957 relating to agreed charges. The average per ton mile is 2.65 cents; on agreed charges similar revenue per revenue ton mile on the competitive traffic is 1.93 cents; for non-competitive it is 1.81 cents; for statutory rates—that is the Crowsnest pass—it is .49 cents, and for all traffic it is 1.57 cents. You can see from any of these figures that our agreed charges show a revenue per ton mile higher than any of them; it is not an unprofitable business.

The CHAIRMAN: That answers what you were asking yesterday.

Mr. DRYSDALE: Not entirely, Mr. Chairman, because Mr. Gordon invited me not to get into a discussion.

Mr. GORDON: Mr. Drysdale, let us continue this discussion by ourselves some time.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. FISHER: I appreciate very much what the president said, that in the main labour relations go along freely, but I wondered what the president thinks of using the durable goods industry as a comparable yardstick to try to determine what should be the real wage value or the market value.

Mr. GORDON: I think it is unfair to the railway, and that was discussed at great length in the proceedings before the last conciliation board report. We have been trying to use what we call a community index. We did not succeed in persuading them at the last hearing. We are keeping on and trying to refine our type of approach, and we hope for better success.

Mr. FISHER: With the three-year agreement signed with some of the main brotherhoods, is not that going to give you your period of stability?

Mr. GORDON: It certainly will be most helpful; but remember, they are three-year agreements and that is not three years from today. They were more than a year retroactive and right now they have less than two years to run.

Mr. FISHER: This again brings us back to the Crowsnest pass. Look at paragraph 82. The most important single factor you pick out is wages—more and more one of the things of most concern in railway problems is that the freight increase is being used simply as something to channel through into wages.

Mr. GORDON: I have not stated that. I stated that perhaps the most important single factor is the continuing increase in operating cost is occasioned by rising wages and material prices.

Mr. FISHER: Could you assess the relevant pressure of one or the other, or are they roughly equal?

Mr. GORDON: I will give you an offhand view; it is two of wages to one of prices.

Mr. FISHER: Well, you mention nowhere in "the year in perspective" this factor of the Crowsnest pass agreement.

Mr. GORDON: No.

Mr. FISHER: Yet we have another railway system in the country. I have been following their annual reports closely and they place it as the No. 1 factor almost year after year.

Mr. GORDON: Quite true.

Mr. FISHER: I would like an explanation as to why you emphasize the one, which many people who are hostile to labour will pick out, and you do not emphasize the other.

Mr. GORDON: I thought I covered that yesterday. I said quite frankly that the C.N.R. management, as a matter of policy, does not feel that it should attack legislation now on the books. The legislation is there and we feel that we are bound by the legislation. But if and when we are invited by any government appointed body that may be investigating it, royal commission or otherwise, we will be perfectly willing to express our views on it. A private enterprise railway does not feel it is under such an inhibition.

Mr. BROOME: You also said it was not so important to the C.N.R. because the C.P.R. carried the bulk of the grain trade.

Mr. GORDON: Yes, it is more important to the C.P.R.

The CHAIRMAN: This matter was dealt with before. You mentioned \$10,300,000 of increased wages yesterday. It was dealt with at the beginning.

Mr. FISHER: Now, one last point, if I may: you were talking about the factors for the future; is it not a fact that the C.N.R., compared with the C.P.R., is in a better position in so far as future developments are concerned, by its very location? It is much more likely to tap mineral developments than the C.P.R., because of its location.

Mr. GORDON: We would hope so. We have referred to ourselves as the development railway of Canada. We have had for a long period, thin traffic lines which may be beginning to come into their own. If the traffic from the new areas becomes promising we will begin to get a payoff.

Mr. FISHER: If we are undergoing a great development program in the north—we are having lots of discussions with the minister in the committee in regard to this subject—the C.N.R. really stands to gain from such a development.

Mr. GORDON: I would hope so, yes.

Mr. FRASER: I would like to move the annual report, the financial statement and budget be adopted.

Mr. CHEVRIER: Just a moment. I would like to draw attention to the fact that on page 30, under subheading, "Depreciation and retirements, supplementary depreciation—steam locomotives", the figure given is \$7,500,000.

This was a charge which originally arose out of a deficiency in the provision for depreciation for steam locomotives, and there was a statement made in last year's report about this depreciation. Perhaps I could just read one paragraph, which is as follows:

In the case of steam locomotives, which according to present plans will be replaced by diesel locomotives within the next decade, it is predicted that a deficiency in accumulated depreciation will materialize which could amount to as much as \$30 million. The circumstances relating to this particular class of equipment are unique in that with its retirement the entire class will disappear. Having regard to the circumstances and the underlying accounting principles, we are of the opinion that consideration should be given to providing out of income for the anticipated deficiency.

Then the report went on; I think, still quoting the president, although I am not sure:

The railway's officers have been examining this situation with the object of devising remedial action which will be consistent with good accounting practice, acceptable to the Board of Transport Commissioners for Canada and compatible with the governing statutes.

The point I want to make is that in 1957 the position was taken to charge \$7½ million of extra depreciation to the results of that year. To the extent that that previous charge for depreciation had been insufficient to provide for the retirement of the steam locomotives in question, it seems to me further charges for depreciation ought to be made to the income account and ought not to be covered by charge to the shareholders' equity, as has been done here. By making the charge to capital, it seems to me it really distorts the earning picture of the C.N.R. over the period when the depreciation occurred.

The other point I would like to make before you give your reply is this. That further charge for depreciation will have to be made by adjustment of the capital account, because—as is evident from the first quotation that I read from last year's report—the total amount involved is about \$30 million.

What I am really driving at is this. It may not be the case, but one cannot help thinking that the government's decision in this matter was somewhat activated by its desire to reduce the deficit of the C.N.R. for 1958 and, consequently, reduce its own deficit. Quite clearly, the C.N.R. figures for 1958—it seems to me—do not properly state the situation, because of the credit of \$7½ million which is shown on page 30 as being taken for depreciation in 1957. I wondered, in view of the discussion that we had last year on this, what your reaction was to that suggestion.

Mr. GORDON: This whole affair arose out of a difference of opinion between technicians, in a sense. Our accountants, supported by our legal department, felt that the entry for depreciation, as you have described it, was the proper way to handle this.

When the matter reached the Minister of Finance, in terms of its being an item which should add to our deficit for that year, he took the position that it was not a proper entry as contemplated by the legislation. As I say, there was a difference of opinion. That difference of opinion was referred to the Department of Justice, and the Department of Justice gave a legal ruling, supporting the position of the Minister of Finance. In the light of that, there was nothing else we could do, and there was nothing else the Minister of Finance could do, because the ruling was given in the terms of an interpretation of the legislation that existed.

Mr. CHEVRIER: How will that operate as to the balance of the depreciation, for instance, in 1959?

Mr. GORDON: Instead of being a charge such as you have described, it will be adjusted through shareholders' equity account.

Mr. CHEVRIER: In the same manner as is being done for 1958?

Mr. TOOLE: Yes.

Mr. CHEVRIER: Because of the opinion of the Department of Justice?

Mr. GORDON: That is right. This opinion is based on the legislation.

Mr. FISHER: When will the steam locomotive side of things be completely off your books?

Mr. GORDON: As I said before, we expect to be fully dieselized by the end of 1960; but the write-off of the steam entries will probably be done in 1961.

Mr. FISHER: You have not any entries in your budget that would indicate sales of any of these steam locomotives?

Mr. GORDON: No; we have canvassed the world and we have not been able to sell any steam locomotives.

Mr. FRASER: You have heard my motion, Mr. Chairman.

The CHAIRMAN: Yes.

Mr. FISHER: Why have the insurance expenses dropped so markedly in your budget?

Mr. GORDON: What page is that?

Mr. FISHER: Page 31, the top right-hand corner.

The CHAIRMAN: You are on the financial statement?

Mr. FISHER: Yes.

Mr. GORDON: You mean, under "Casualty costs"?

Mr. FISHER: Yes.

Mr. HORNER (*Jasper-Edson*): Mr. Chairman, while we are waiting, have they got any steam locomotives that they would like to give away to local historical societies?

The CHAIRMAN: Local what?

Mr. HORNER (*Jasper-Edson*): Local museums.

Mr. GORDON: We have had several requests, and we are quite willing to consider them. But I warn you, there is a substantial cost involved, because we do not place them on the sites. We will be prepared to consider requests from responsible people for steam locomotives.

Mr. Fisher, the entries you are referring to—there are several—dropped for this reason. This simply represents the charges to our own insurance account for the actual cost of the casualties involved. The explanation of the reduction, therefore, is that the casualty experience in 1958 was lower than in 1957.

Mr. FISHER: That is fine.

The CHAIRMAN: Are there any other questions on the statement, gentlemen?

Mr. McPHILLIPS: On the consolidated balance sheet, page 26, under "Property investment" there are three headings; "Road"—which I suppose means railroads—"Equipment" and "Other physical properties". There is one question I would like to ask with regard to that. Is the Montreal residence that was purchased in Sir Henry Thorton's time still a part of the C.N.R.?

Mr. GORDON: No, sir.

Mr. McPHILLIPS: It is not?

Mr. GORDON: It is not on the books of the C.N.R. and, as far as I know, it was sold many years ago. In any event, it was removed from our books and it is not part of the C.N.R.

Mr. McPHILLIPS: I have another question, with regard to the docks in the inner harbour of Victoria, British Columbia. They were sold in 1947. They have not been replaced?

Mr. GORDON: No.

Mr. McPHILLIPS: What was the consideration obtained for those docks?

Mr. GORDON: I have not got the price before me, and if I had, I would have to remind the committee that it is not our practice to divulge the prices received in business dealings with other parties. That has been our position right along, and has been supported by the committee throughout the years.

Mr. McPHILLIPS: But you did not hesitate to tell us yesterday that you paid \$625,000 to the Yukon Telephone Company.

Mr. GORDON: That is right: we bought it; that is a factor affecting us.

Mr. McPHILLIPS: You also, thereby, gave away what they got. Surely, when an asset of the Canadian people is disposed of, the committee is entitled to know what was obtained for it?

Mr. GORDON: I will not turn back the pages of history to 1947 and deal with the circumstances at that time; but I do know, from our records, that such questions have been asked before, and the committee upheld the stand of the then management that the information should not be divulged.

Mr. DRYSDALE: What is the reason for that?

Mr. GORDON: There are four reasons why information is not divulged by the Canadian National Railways to the committee. On each occasion when this question has come up over the years we have been able to turn back to these four reasons.

Management has not been required to answer in the following cases:

- (a) When the reply would constitute a breach of confidence or a violation of privacy affecting those doing business with the C.N.R.
- (b) Information from the personal files of officers and employees.
- (c) Information prejudicial to the competitive position of the C.N.R.
- (d) Information tending to restrict the ability of the C.N.R. to buy or sell on advantageous terms.

I do not recall this particular case, but I imagine it would come under paragraph (a), in that if we were required to divulge a business transaction, it would become very difficult for the Canadian National Railways to do business with other people. They do not like to have their private business exposed to any other industry, such as the Canadian Pacific Railway in particular. Because if that were done, we would be handicapped.

Mr. DRYSDALE: In most of the circumstances they are unique transactions, and after the lapse of a period of ten to eleven years, what harm could be done?

Mr. GORDON: I say frankly that I cannot myself think that it would do any harm. But I am upholding a principle. That is all. I have no reason to hesitate about giving the figure. I do not care about it; but I think we are upholding a principle.

Mr. McPHILLIPS: Consider the principle of agreed rates. Surely they go to the very bedrock of a shipper's costs; yet they are made public.

Mr. GORDON: It is required by law that they be made public.

Mr. McPHILLIPS: I know. But does that not establish the principle that these matters should be made public?

Mr. GORDON: No, all tariff rates are a matter of publication because they affect everybody. However, this is a private business transaction.

Mr. DRYSDALE: I cannot understand how a committee in 1941 or 1947 is able to bind the present committee.

Mr. CHEVRIER: May I say a word on that. I think perhaps you are right, and that a committee in 1941 cannot bind a committee in 1959. But the important point I think is that this committee on railways and shipping has always taken the view which has just been outlined by Mr. Gordon. However, if this committee wants to break it, it can do so. But if it does, then any information that any member wants in connection with competitive matters concerning the Canadian National Railways will have to be given, not only on this but on all other matters as well. This question has come up so often before that I felt I should make this statement at this time.

The CHAIRMAN: I think that Mr. Chevrier has outlined it, and as the president has stated, he is bound by the committee. If the committee wants it, he will provide it. But I agree with Mr. Chevrier. I think it would be a very serious mistake and one which would embarrass the management in matters of competition.

Mr. McPHILLIPS: Is it good policy? I know that in this particular instance to the businessmen of the city of Victoria this has been a big dark secret and mystery. Here was an asset of the Canadian people being sold. It was something which had existed in the harbour and had been very useful for many years. But nobody knows to this day what was the price paid for it. These things are not good in business.

Suppose the Canadian National Railway should sell the Chateau Laurier tomorrow and then say: "You are not going to be told what we got for it. That is our business". Surely that is not good business for a crown owned railway. And as far as refusing to answer, I do not know how Mr. Gordon can refuse. He is here in the capacity of a witness, and unless he can show privilege, something which I do not think he can, then how can he refuse to answer?

Mr. CREAGHAN: Does the management of the railway have to have the approval of the governor in council in order to dispose of a valuable asset?

Mr. GORDON: It would depend on the size of it. If we follow the general rule, as it is followed in a private company, if the asset in question represents perhaps the majority of the property of the company, the general rule is that it requires the shareholders' approval. Now, this shareholders' approval as it affects the Canadian National Railways means an order in council.

Mr. CREAGHAN: Following this up further: I know that in the case of land transfers in the maritimes, quite often if it is railway land, the Minister of Transport has to sign the deed. And if that is the case, supposing it were the transfer of a wharf owned by the railway, would the Minister of Transport not have to sign the deed?

Mr. GORDON: You are getting into a different situation. The property referred to was Canadian government railway property, and any legal document in connection with that property must be signed by the Minister of Transport.

Mr. CREAGHAN: Suppose you sell a wharf in the maritimes, or a piece of property in the maritimes. The information can become public. But if it is on the west coast, it cannot?

Mr. GORDON: No. I am only stating that the legal document in connection with Canadian government railways property requires the signature of the Minister of Transport, and then he has to make the decision as to whether or not he will divulge the particulars.

Mr. CREAGHAN: He can be obliged by order of the house to disclose the amount, if it is a sale in the maritimes?

Mr. GORDON: I do not know enough about house procedure, but if the minister said that it was against the public interest, I do not believe he would have to disclose it.

Mr. CHEVRIER: If it is property of the Canadian government railways, then he has the responsibility as Minister of Transport to determine whether or not it shall be produced in the house. But if it is an asset of the Canadian National Railways, it is not producible unless the Canadian National Railways decide to produce it.

Mr. GORDON: I think that is the general position. I have outlined what has always been the attitude of the committee, and thus far that position of the Canadian National Railways has always been respected. On previous occasions when the president of the railway has stated to the committee that a particular thing was not in the interests of the railway to disclose to the public, the committee has always upheld him in that position.

The CHAIRMAN: Your question, Mr. McPhillips, deals with a sale made in 1947, does it not?

Mr. MCPHILLIPS: Following what Mr. Gordon has just said, he has not gone that far. He said that the committee has never insisted that he give an answer if he thought it was not in the interests of the company. But he has not said that this was not in the interests of the company. He just quoted certain rules.

Mr. GORDON: I thought I said that it was not in the interests of the company or of the Canadian National Railways to be required to divulge information about property sales made to private individuals, because it interferes with the competitive position of the company.

This matter dates back to 1947. I do not know anything about it. I was not there. Perhaps I had more sense in 1947 than I have today, but I was not there, and I do not know about it. As far as I know there is no mystery about the matter. It is news to me. I do not know anything about it. I am only taking my position on a matter of precedent. I do not want to concede a precedent in this individual case which was inconsequential, because it would establish a precedent which would enable anyone to ask for information. I feel that precedents in this particular field are very important.

Mr. DRYSDALE: Mr. Chairman, since the difficulty seems to be a matter of publicity and we being, as a committee, able to sit in camera on some of these confidential items, could we reserve it perhaps and then sit in camera and discuss among ourselves whether it would be feasible to hear this?

The CHAIRMAN: I do not think the committee would desire to sit in camera.

Mr. DRYSDALE: Well, on these particular aspects. The thing that bothers me is not the particular thing before us, but it strikes at the heart of our function as a committee.

Mr. SMITH (*Simcoe North*): What value is the information after we have got it?

Mr. DRYSDALE: Well, Mr. McPhillips is anxious to get this particular information. I suppose it is up to him.

Mr. CHEVRIER: If he is anxious to get it then other members will be anxious to get other information. I am trying to recall now, and I think this ruling was a precedent and it was made by Dr. Manion—it comes back to me now—when he was Minister of Railways and Canals, and that ruling was, if the president of the railway decided that certain information was not in the interests of the railways to give, then the committee should not be given it; and during the years I was here that ruling was followed respectfully. The committee can change it if it wishes, but I think it is a mistake if it does.

Mr. DRYSDALE: Mr. Chevrier, the difficulty, you see, with that and certainly I would emphasize—I do not know how strongly I can emphasize it—there is certainly no criticism of Mr. Gordon, but it seems to leave a tremendous amount of discretion on the president. That is why I suggested this in-camera session to determine whether it is in the public interest to divulge it. But it bothers me to think it can be said, “No, you cannot look at that because I do not think it is in the public interest,” and I am unable to examine it to see how he is applying his views on this particular point.

Mr. McPHILLIPS: What difference is there between a corporation such as the Canadian National Railways and other commercial corporations. You can pick up your paper and you see where a big building is sold in Toronto, or a big one in Vancouver. They are only too glad to divulge the information. That is always part of the news.

Mr. FRASER: Mr. Chairman, would it be possible to leave it to the discretion of the minister and if he felt that it should be divulged then he could tell Mr. McPhillips?

Mr. DRYSDALE: I do not think it is a question of ministerial discretion in this instance. Mr. Chevrier has suggested a very rigid rule, and that is the thing that bothers me.

Mr. SMITH (*Simcoe North*): Mr. Chairman, I think we must be careful, sitting as a committee, about trying to replace the board of directors of the Canadian National Railways.

Mr. DRYSDALE: This is a function of the committee.

Mr. SMITH (*Simcoe North*): May I continue, please?

Mr. DRYSDALE: Yes.

Mr. SMITH (*Simcoe North*): I have a slight difficulty on this particular question because I cannot see how the exact information asked for can in any way effect the competitive position of the Canadian National Railways some twelve years after the event. But I agree that if it was to establish a precedent I think it is wrong. The management and board of directors of the Canadian National Railways have to have some discretion. This committee is examining the operations of the Canadian National Railways and we should be careful not to try to put ourselves in the position of the board of directors.

Mr. DRYSDALE: Mr. Chairman, with respect, I do not think Mr. Smith's allegation is correct. This sale is a unique situation and I do not see how this particular individual sale can establish a precedent. I think Mr. Smith is in error on that point.

Mr. SMITH (*Simcoe North*): I am inclined to agree with you.

Mr. DRYSDALE: I feel it is up to Mr. Gordon to produce very good reasons why this should not be given and the most full and logical reasons that he can. If not, I think we are entitled to have it as a committee.

Mr. CREAGHAN: I think to bring the matter to a head we might ask the clerk of the committee to interpret the order of the house. This committee was ordered by the House of Commons to investigate the accounts of the Canadian National Railways.

The CHAIRMAN: If we need that now we should have had it in the beginning.

Mr. CREAGHAN: No, this is an order of the house and I think perhaps with his years of experience the clerk can tell us how far we are expected to go or how far we should go.

Mr. McPHILLIPS: We cannot be bound by such a thing as that.

Mr. CREAGHAN: If the order permits us to go into the capital accounts and investment accounts all well and good, your question is in order.

Mr. McPHILLIPS: Well, how could it help but be in order?

Mr. CREAGHAN: Well, I am asking an expert.

Mr. DRYSDALE: Mr. Chairman, I see the Minister of Transport has arrived. We were just waiting, Mr. Minister, to have your consent to have Mr. Gordon release some information to Mr. McPhillips.

Mr. GORDON: No, that is not so.

The CHAIRMAN: You cannot put it that way.

Mr. CHEVRIER: I think it should be explained to the minister what happened in his absence.

Mr. DRYSDALE: I started out in a facetious manner. I intended to expand on it. I am sure the chairman will expand on it.

The CHAIRMAN: I would suggest the minister should not speak without advice of counsel in this case. Mr. McPhillips has asked the president to tell him the price of a sale of a property in Victoria harbour, a sale that was made in 1947 before Mr. Gordon became president of the railway and he says he sees no significance in answering the question except that he is establishing a precedent, there is no objection to giving the information, but the committee has supported him in other years in not giving such information because it affects his bargaining strength in competitive business.

Mr. Chevrier, who is one of the senior members in such procedures, has said that he recalls several years ago—and I think I recall when this was started—that the information was not given and that the committee held, many years ago, that they would support the president in not revealing the information.

It was mentioned just before you came in that if it was asked from you that you could answer it, but the president just said, as you came in,—you probably heard him,—that that is not the issue. He is responsible, and the board of directors of the Canadian National Railways are responsible inasmuch as they are in the position they are in. Their contention is that it is their responsibility.

Mr. CHEVRIER: I wonder if I could just add something. What I would like say here is that if the minister's secretary were here I think he could dig up very quickly the ruling that was made in the committees on more than one occasion. It established quite clearly that if the president of the railway decided that it was not in the interests of the railway to make the information public then the committee upheld him. That did not bind future committees, but the committee in those years, that it should follow that practice. If this committee wants to upset that practice it is up to it to do so, but it would be, in my humble opinion, a bad procedure to follow.

The CHAIRMAN: It would be a precedent, speaking from my recollection of it over a period of many years here. I think it has been the practice consistently, even before the Hon. Bob Manion's time.

Mr. CHEVRIER: Well, you were here before, when I was not.

The CHAIRMAN: I think it has been consistently the practice. It is the same as a matter in the house, and some of the foolish questions that your side asks the house now which you claim to be in the public interest. You may claim that and you want them to answer, but you cannot make them answer, the same as we had great difficulty in making you answer a few years ago.

Mr. CHEVRIER: Now you are putting me in an awkward position.

The CHAIRMAN: Is the president not in the same position in relation to the railways?

Mr. GORDON: There is one point that is being missed and I would like to get it in here. I think it has a practical bearing on this. The point is, I have on previous occasions disclosed sales such as Mr. McPhillips has mentioned, but always with the consent of the other party. When a situation has arisen in regard to sales, for instance, in regard—I can recall an elevator in western Canada and when the information was asked for I got in touch with the other party and said, "Have you any objection to disclosure?" I recall we mentioned the price of certain sales, and that has reference to what you mentioned, that you see it in other companies' statements. If I were to get in touch with the other party in this case I would have no hesitation in getting in touch with him and saying, "All right, by agreement we will divulge the price." In 90 per cent of the cases the transaction is of a character that the other party has no objection. Sometimes they have.

I can recall an instance the first year I was here, with the Imperial Oil, where Mr. Fulton made a very definite step to find out the agreements that had been made in respect of oil rights in western Canada and I did not think I could disclose that without the consent of the Imperial Oil. It was forced to a vote and I was upheld.

Here I do not have the foggiest notion of who bought the property in 1947 nor whether they are alive or dead, and I cannot express any views on it. If the thing were in my time I would know pretty well whether the other party would have any objection to it, because I generally ask that question. But I do not want to create the precedent of divulging information of that kind because it does affect our bargaining power.

Mr. DRYSDALE: That raises the point that it is in the public interest, according to Mr. Gordon, whose interpretation of it means whether the other party wants to disclose the sale.

Mr. GORDON: No, it means the public interest as it affects the Canadian National Railways. The Canadian National Railways may be put in a position, in its general business transactions, to conclude business deals in such a way as no private corporation does. If people doing business with the Canadian National Railways do so under the possibility of having their business made public, then it will affect the Canadian National Railways' ability to do business.

Mr. DRYSDALE: You said as far as you could see you had no objection to disclosing the sale. Therefore it would bear out the point that it was not a matter that was against the public interest to disclose.

Mr. GORDON: No, I made it clear that I knew of no reason in this case, but I was standing on the precedent that was being raised in this case. That is what I said.

Mr. SMITH (*Simcoe North*): That can be solved without establishing a precedent by having Mr. Gordon get in touch with the purchasers and finding out if they would have any objection to divulging it. In that way he would not have to break any precedent.

Mr. HEES: Well, Mr. Chairman, Mr. McPhillips would like to get the information. I am sure he does not want it for publicity's sake and so on, and if Mr. Gordon says he has no objection to giving it to him, provided the other party is willing, then could it not be left this way, that Mr. Gordon, after this meeting is over and when he gets back to Montreal, could get in touch with the other party and find out if there is any objection. If Mr. Gordon says the other party is willing and can give him the information that is all you want, is it not, Mr. McPhillips?

Mr. MCPHILLIPS: I certainly want the information, but I want the other side to make the decision as to whether we are entitled to the information itself.

The CHAIRMAN: I do not like to poll the committee. We have not had to have a vote yet. I think we should try and settle it without a vote if we can, but so far as I am concerned, Mr. McPhillips, when you look at it in the light of the years that have passed, if we accept that as a committee today, it is twelve years ago. It opens up a tremendous field. It establishes a precedent that at another year's sitting we would go back on the prices for ten or twelve years back and all the old detail. To my mind it would be like shovelling fog, almost—you would not get anywhere.

Mr. MCPHILLIPS: Mr. Chairman, here is the point: if I go back to the people—and they are responsible people like the president of the chamber of commerce and so on who have wanted to know this for a long time and have never found it. Then when there was a quite a big change a year or so ago they thought maybe they could find it out—if I go back and say, "No, I cannot find it out," these business men of Victoria are going to take the worst possible view and say there is some sculduggery going on. That is what I do not want to see. If I can go back there and give the information, there it is.

The CHAIRMAN: That is your own local business, but supposing Heber Smith or I, or Fisher at Port Arthur, all want to go back and ask a question years before, or I want to ask something about Allendale back 35 years ago, we are setting a precedent not only for the year that has just passed but we are going to ask the president to give us information and details on a deal that was made years before he was president; and he has been president quite a while, going back over a ten-year period. I do think we would be establishing a precedent that would be very embarrassing in the future that possibly we would have to almost rescind. I think if there is any other way, as Mr. Smith has mentioned, that it can be met, rather than establishing a precedent I think it should be explored, because it has been a precedent.

Mr. MCPHILLIPS: If that is right, you could never follow your capital asset account, because after all that has to be investigated and you would not be able to find out what amount of money was obtained from this or how it was dealt with in the capital assets. In other words, you follow it through and you get a nil answer all the way down the line. So you would have the sale of an important asset like that and could not trace the money and could not trace what had happened to it. It is just lost in the system. Surely that is not right.

Mr. GORDON: You must remember in that respect that the management of the Canadian National Railways is entrusted to a board of directors by legislation. You will also recall that every transaction of the Canadian National

Railways is audited by an auditor appointed by government, who reports to the government, and anything that you suggest in the way of sculduggery would very readily come to light.

This issue has been discussed again and again, and you will see in the sessional committee of 1955 the same issue arose in regard to my contract with Hilton Hotels and the management of the Queen Elizabeth. The committee has accepted my view there, that it would not be desirable to disclose that particular transaction for the reasons I had given.

Mr. DRYSDALE: You had valid reasons there, though.

Mr. GORDON: Yes, and I think they are equally valid now.

If you are asking me to conduct the business of the Canadian National Railways on the basis that everyone who comes in to discuss a deal with me I should say, "I must warn you before we start that the results of this deal must be fully disclosed", then I know perfectly well there are a number of discussions will never take place. Some people place a value on privacy.

Mr. DRYSDALE: As far as using that Hilton hotel as an illustration, supposing for some reason the lease expired and it went to another firm or Canadian National Railways ran it and Mr. McPhillips asked then what the lease had been, would you first have to determine that he should not see it?

Mr. GORDON: I certainly would. It would be a breach of good faith.

Mr. DRYSDALE: That is the objectionable part.

Mr. GORDON: Not at all. Let me follow that through. The reason I gave for the Hilton hotel deal could be summarized like this, that the deal made then was on a much more favourable basis than anyone had been able to achieve with Hilton in other countries of the world—and he has a chain of hotels all over the world—he does not want to have our contract used against them.

Now, if at the end of the contract we are able to show all the details in this country this will put him in an embarrassing position. It is the question of the right of privacy in business generally.

Mr. DRYSDALE: I agree with you on that situation. Unfortunately, I do not think they are completely analogous, because the Hilton hotels would be carrying on in other countries in the world. But in this situation we have a situation which is unique and is not repetitive. Mr. McPhillips is trying to find out the details and that is where I do not know how we keep saying we are setting a precedent.

Mr. BROOME: All we are saying is that we disagree; we disagree. I think we should resolve this. I think you should call for a vote and cut out this senseless chit-chat.

Mr. DRYSDALE: I wonder if we could let the matter stand overnight and if Mr. Gordon can ascertain whether or not he can divulge details on it and also give us the opportunity to examine the precedents to see what they are, rather than relying on hearsay.

Mr. GORDON: It would help me, Mr. Chairman, if I could have a statement from Mr. McPhillips as to what gives rise to this particular information. I rather suspect that there is some situation locally that is in a point of dispute or argument.

It would help me a great deal, Mr. McPhillips, if you could give the committee your reasons for desiring this information because I rather suspect that there must be some local issue that has given rise to the dispute or else the matter would not come up twelve years later for argument. In other words, I do not know what is involved—but if the information is meaningless to the other party—I would have thought by now he would have fully divulged the

price himself—twelve years later—there should be some reason for you not getting it from the other party. That is why I am cautious about being drawn into the very thing we are discussing. There must be some reason that involves a local dispute and argument; and if I am required to give the information which the other party did not or does not want to, for whatever his private reasons are, that is why I am trying to establish the right to privacy.

The CHAIRMAN: The ruling that was passed in 1955 supports the position he was taking.

It is moved by Mr. Fulton and seconded by Mr. Macdonnell:

That the committee be furnished with a statement of the basis on which the Hilton Corporation of Canada will be paid for the managerial services it will supply at the proposed Queen Elizabeth hotel.

And without reading it all it states at page 179:

The Canadian National Railways Company, the whole system, would be placed in a very difficult situation with regard to the negotiation of contracts if information is given to a particular contract, if information is given with regard to a particular contract, and if information would have to be given as to contracts dealing with the Canadian National Railways and in that respect they are being placed in a very bad position.

Mr. DRYSDALE: What was the tally on the vote?

The CHAIRMAN: You would have to look in the minutes of proceedings. I remember the motion certainly did not carry.

Mr. CREAGHAN: Was it a recorded vote?

Mr. DRYSDALE: It has no identity with the present situation. You cannot use anything as a precedent unless you can identify it with the existing situation.

The CHAIRMAN: You might have a dozen cases which would not be identical, but the precedent is the same. The precedent in respect of giving information, the president feels, is not in the interests of the management of the railway.

Mr. McPHILLIPS: This is no idle inquiry. The fact of the matter is that this was a very valuable piece of waterfront property which involved two piers with four dockage spaces. It has caused a very awkward situation in the harbour of Victoria because the United States ferry operators cannot land at the C.P.R. wharf. The only other wharf immediately downtown is the Black-ball line and they want \$60,000 per season in order to allow the United States operators to tie up. They cannot pay it. When those government wharfs were there, admittedly they did not have too much business, but at least ships could dock there for normal fees.

Mr. GORDON: How would the fait accompli of 1947 affect the situation today?

Mr. McPHILLIPS: They put it to me it was like the wolf coming in the night. They woke up in the morning and the cement company just rolled their trucks into the area and brought their brick and cement. The people in Victoria were astounded.

Mr. GORDON: Are you suggesting the situation now could be undone?

Mr. McPHILLIPS: No. I am, however, suggesting that this information should be made available.

Mr. GORDON: It is not a question of a continuing situation.

The CHAIRMAN: It probably would be interesting to have the information, but I still think the precedent is a dangerous one to establish.

Mr. CREAGHAN: Not getting the information is just as dangerous. It is quite possible for any agency to convey a parcel of land to the C.N.R., the C.N.R. could dispose of it and it could not be made public.

The CHAIRMAN: If you establish this precedent, you establish the same precedent that any president of the railway who comes before this committee would be subject to questioning on the purchasing and sales of everything.

Mr. CREAGHAN: He has already told us he paid \$10,000 a unit for his second-hand United States equipment.

Mr. GORDON: That was only an indication of the magnitude of it. Never, at any time, did I give you exact prices.

Mr. CREAGHAN: You gave us the cost of diesels.

Mr. GORDON: In round figures. We call for tenders for diesel locomotives. Those prices are quoted to us. If I were to divulge the price at which I have made a deal I would be giving the information to the competitors and in the future we would be handicapped when we called for tenders.

Mr. CREAGHAN: That is the disadvantage of being a government company.

Mr. GORDON: Let us reduce the disadvantages to the maximum.

Mr. CREAGHAN: The people of Canada pay for the deficits and take advantage of any surplus and if this information is important to a member of parliament I suggest he should be given it.

The CHAIRMAN: You said this is a company connected with the government. If it was any other company the shareholders would not force management to tell them every detail.

Mr. McPHILLIPS: They would on the sale of a capital asset. If you were there as a shareholder and a certain mine were sold, you would get the detail.

Mr. GORDON: Not if the management said it was privileged.

Mr. McPHILLIPS: The management would have to show it.

Mr. CHEVRIER: The position of the Canadian National Railways in relation to that of a private company, such as a mining company, is entirely different, because it has a competitor, the Canadian Pacific Railway. A lot of the information, such as is requested now by Mr. McPhillips, has been refused in the past here. The way I see it is that the president has given four reasons why, in the past, it has not been desirable to give this information. If we are to go and upset the president, then let us go ahead and do it. I certainly do not want to do it, because it will break a long line of precedent. If we do break it, there is a lot of information I would like to obtain, and I will ask for it, concerning transactions between the Canadian National Railways and other parties elsewhere in Canada.

The CHAIRMAN: I have had some experience in running companies and I would hate to have to reveal every deal I have made as a head of a company. I think it is just as practical as that. If I were in the pulp and paper business I would not want to tell every other pulp and paper company what I do, any more than Mr. Gordon would want to tell the C.P.R.

Mr. McPHILLIPS: If you get into operation I agree with you. However, if you dispose of a capital asset the auditors must know it. If there is a \$10,000 deal and the "hush-hush" is put on it, then nobody knows anything about it.

Mr. SMITH (*Simcoe North*): I think we are getting further and further away from the business of this committee. It is a little like what Senator

Dirkson said—we are flogging a bag of old bones. The purpose of this committee is to study and review the current operations of the C.N.R. Mr. Gordon was not even connected with the C.N.R. in 1947 and I doubt if many of the vice-presidents sitting around here were.

Mr. DRYSDALE: That is immaterial

Mr. SMITH (*Simcoe North*): It is not immaterial, because we are here to consider the operations of this year of the C.N.R.

Mr. McPHILLIPS: No, the capital accounts.

Mr. SMITH (*Simcoe North*): That is what we are here for. We are getting further away. If there was a bad transaction in 1947 there is nothing we can do to make it better. It is completely irrelevant as far as the current management of the C.N.R. is concerned. Mind you, they also made land deals at Barrie which I have not enjoyed.

Mr. FISHER: I see the deputy house leader. Could you call a caucus of Conservative members and settle this.

Mr. DRYSDALE: The committee was appointed to consider the accounts, estimates and bills, and the only worry seems to be the basis of establishing a precedent. I think that is entirely unimportant because what we are dealing with is a unique situation. It is up to you to decide. I do not think we are bound by precedent in this type of case. As a matter of fact, in 1955 there was a vote.

The CHAIRMAN: That is true, in a sense, but as Mr. Smith says, we are discussing the 1958 annual report. I do not agree with you, and I do not think the committee does, that the precedent is not an important one.

Mr. DRYSDALE: Mr. Chairman—

The CHAIRMAN: Although I dislike to have to call a vote on this, it seems to me it cannot be decided in any other way, if you feel that strongly about it. I think it is important when the president says, in good faith that he had nothing to do with the deal himself, but that he had no particular objection, himself, except inasmuch as it is establishing a precedent, and it would be embarrassing to him, perhaps, in the future. I also think it would be opening up for other years a field we have not yet surveyed—and we have pretty well surveyed everything in this committee. It would be wrong unless done with the approval of the committee.

Mr. DRYSDALE: The reference to the sessional committee was to consider the accounts, estimates and bills relating thereto.

The CHAIRMAN: For 1958.

Mr. DRYSDALE: No, you check the order; it is not for 1958.

Mr. CHEVRIER: Even if it is not said in actual words there, it is by inference, 1958, because every year the same committee is set up to consider the annual report for that year.

Mr. DRYSDALE: In other words, something discovered in 1958 relating to something in 1957, you could not go back to? I do not think that is the intention at all.

Mr. GORDON: The only time in my experience when this is raised is in connection with current transactions in the year which is being dealt with. It is something referred to in the report, when I have been questioned about it.

The other important matter to me is that if this view prevails then you are asking me, as president, to be prepared to answer for anything that has happened in the operation of the C.N.R., right back to its origin in 1923.

Mr. DRYSDALE: Why not?

Mr. GORDON: I think it is completely impossible.

Mr. DRYSDALE: Mr. Chairman, we have here, within the grounds of reasonableness, a unique situation, and because you have made a statement about the difficulties of going back to 1923, I would suggest the terms of reference would allow us to go back that far, if some of the members thought it was in the interest of the committee to look back on it.

Mr. GORDON: I suggest this, that the management of the C.N.R. is difficult enough as it is, and I would urge you not to make it impossible.

Mr. DRYSDALE: We are not trying to make it impossible.

Mr. GORDON: You are getting close to it.

Mr. DRYSDALE: I think the Chairman said, and wrongly, that we are examining one unique situation, and that is with reference to the Hilton hotel. On the basis of that situation and upon the information that came forward they said, "No, you do not have to produce the information".

Mr. GORDON: That is only one example. I can give you other examples.

Mr. DRYSDALE: This is a completely separate and unique situation, and I think we can decide what you should produce.

I wonder if it would be possible, Mr. Chairman, as was suggested earlier, for Mr. Gordon to make investigations and find out whether or not he could produce this particular information? We would then have an opportunity also to study other precedents and then when things have cooled off tomorrow, we could make our decision.

The CHAIRMAN: Mr. Chevrier mentioned earlier that it is in the power of the committee—

Mr. DRYSDALE: To do anything.

The CHAIRMAN: —to do as we wish. Whether it is embarrassing the president or not, if we order that he goes back 12 years into the books to get the information, I suppose we can ask him too, the same as you can ask the house.

I do not know, but I think we might as well have a vote and see where we stand on this.

As far as the information is concerned, I think Mr. Gordon is fair enough with Mr. McPhillips, and he can discuss it with him, and if the other parties are satisfied, I think that is as far as we should go as a committee.

I do not think we are going to get anywhere if we continue arguing the way we are. There is nothing in it that I personally want to see hidden. There is nothing in it that affects the president; he was not the president at that time. In fact, if we could reflect upon the other people back in 1947, it does not even involve me in any way, politically or otherwise. No, that is not the question. It is a precedent which I do not consider to be good business.

I know you do not see it that way, Mr. Drysdale, and I am sorry you do not, but I can see the position the president is in.

I know, if I were in his position and had to reveal that kind of information, I would not be president very long. I mean, I would not want to be responsible under those conditions.

However, if you are ready for the vote we will have it moved by Mr. Smith and seconded by Mr. Chevrier, that we maintain that the same principle be followed.

Mr. FISHER: I do not like that motion.

Mr. DRYSDALE: The motion should be, the information which has been requested be given.

Mr. FISHER: I do not like that motion.

The CHAIRMAN: Take it the other way; I do not care.

Mr. McPHILLIPS: I make the motion that the president of the Canadian National Railways give the consideration obtained by the company in 1947 for the sale of the G.T.P. docks in Victoria harbour.

Mr. DRYSDALE: I second that motion.

The CHAIRMAN: It has been moved by Mr. McPhillips and seconded by Mr. Drysdale that the details of the deal—

Mr. DRYSDALE: The motion as Mr. McPhillips introduced it.

The CHAIRMAN: That he be asked to reveal the details, including price, and so forth. Are there any other comments on it? If not, we are ready for the motion.

The Clerk counting—Yeas 4; Nays 10.

The CHAIRMAN: I declare the motion lost.

Mr. GORDON: There is one question which I think should be cleared up.

The CHAIRMAN: Yes, Mr. Carter asked a question that had not been turned up.

Mr. GORDON: There is one answer left outstanding, and that is that Mr. Carter asked about a shipment of some cases of apricots that came through from South Africa, destined to Corner Brook.

I have not been able to identify the particular shipment in the time at my disposal, but my traffic officers inform me that what happened no doubt was the South African shipper shipped on a through-bill of lading, via Saint John, N.B., which did not get the benefit of the Maritime Freight Rates Act.

All such shipments inbound on through bills of lading do not get the benefit of the reduction. Therefore, the 20 per cent is obviously due to lack of the maritime freight rates subsidy. The 7½ cents per one hundred pounds, as near as I can figure it, would cover the wharfage and loading charges car at Saint Johns.

Mr. CARTER: Thank you.

The CHAIRMAN: Are there any further questions?

Mr. FISHER: There is a question I want to take up, consequential to the motion. It is a point on information. I have been bothered over the attitude of the C.N.R. when phrasing questions in the house. I have felt their answers are not as full as I would like. Could the president mark off in a statement the general areas where we could hope to get answers to questions in relation to the C.N.R. operations? I know I am embarrassed many times concerning the questions I have asked when they come back and say, "This information cannot be revealed," or "the company does not keep this information"—that sort of thing.

It is just a question in terms of procedure, as to what is open to us as members of parliament.

Mr. GORDON: I think it would be almost impossible for me to outguess the ingenuity of members in asking questions; it is beyond me. But, actually I will do this: we can try to devise a means of letting you know in what way statistics are kept, and you would then see, within those limits, the kinds of thing that might be applicable. We make up statistics of various kinds.

I will give this as an instance. We are often asked about a payroll on a certain date for a number of employees, as compared with another date. I cannot give you that information because we do not have it ourselves. We take the number of employees on a mid-month date, which is the payroll date, and that is all we keep. There may be wage fluctuations in between those dates, but we cannot set up statistics to give us the number of employees day-by-day.

However, I would suggest to you that it would help you if you would get in touch with us about some of these questions, and we will try to assist you in how to frame your questions, if you like.

Mr. HEES: You cannot do any better than that.

Mr. FISHER: I have found Mr. Jack very co-operative in this particular regard, but it is most unsatisfactory where information is denied one on two grounds: either that you do not keep statistics; or, it is not in the public interest.

Mr. GORDON: I have found from experience—and I have been disciplined myself in this respect—that in answering a question to the house I have been told—and I have been overruled by my own staff—that the question must be answered exactly and it must bear on the particular form of the question. There are many occasions in which I could do, as I do in the committee—talk too damn much; but I cannot in reply to a question in the house. If we could give you some assistance on particular items of information we would be glad to do so. We could tell you how to frame a question in order to bring out the point you desire. If you tell us what you want to find out, we will tell you how to get it.

Mr. CHEVRIER: On a point of order, you indicated Mr. Chairman, that some of the questions that the opposition asked were foolish. All I need to say on that is that any questions I asked the minister he has always been good enough to reply; and I presume they were not foolish. I presume the reason for that was because of my association with the C.N.R., and perhaps I knew how to ask them.

The CHAIRMAN: I think a little advice to many in the House of Commons would be very good, and even if it was not about the C.N.R. you could help them a little. Are there any other questions?

Mr. FISHER: On the capital budget?

The CHAIRMAN: If not, we are ready for Mr. Fraser's motion.

Mr. FISHER: What was his motion?

The CHAIRMAN: That we adopt the annual report, the financial statement and—

Mr. FISHER: Just a moment, Mr. Chairman. Several times during the two hearings the president has said that there are difficulties raised by his appearance before this committee. Have you any suggestions that you could make which would make the task easier for you and at the same time not inhibit or limit the parliamentary inquiry.

Mr. GORDON: That is a great temptation for me. With the greatest deference, I should be glad to express my views in regard to this committee's work.

With great deference, and with no suggestion to restrict the rights of members of parliament, it seems to me in connection with my ten years' experience, that more and more we are losing sight of the fact that the Canadian National Railways is a highly competitive organization, and its management should be designed along the lines of a private enterprise organization. That was the concept of the legislation in the first instance. I have read the earlier debates and every debater in the house from every party accepted the principle of the early royal commissions that the C.N.R. must be set up to operate along the same lines as a private enterprise corporation.

I confess to you that the preparation for this committee is getting to be such a burden and heavy strain that, speaking personally, I doubt if I can carry on much longer. I speak on behalf of my self and my senior officials. I would ask you to believe me when I say that for the first three months, and possibly four, of every year we have the prospect of the committee hanging over us to a point where we cannot get on with other work.

You see here a few sheets of paper. The amount of analysis and efforts on our part to try to meet any possible question which may be asked is a frightening situation; and each year it gets worse.

My suggestion is that the committee should seriously examine just what it is that you are trying to do. I have every sympathy for the members, because it seems to me that members come here and each one feels he must think of some question, because he is here. I suggest to you the procedure ought to be along the lines that the C.N.R. makes its annual report in exactly the same way as the C.P.R. and that that annual report be distributed to the members, and the committee then having read the report, have the president appear before you to make a general statement in regard to the policies, actions and activities of the railway on precisely the same basis as the C.P.R. Today the C.P.R. president made a statement to his shareholders at their meeting at noon, and he has dealt with quite a number of matters in the course of that statement to his directors.

It seems to me that is the sort of thing that should come before this committee. You should be dealing on general questions of policy rather than detailed questions along the lines which we have struggled through here the last few days.

I suggest to you—and I speak with deference—that you should be much more concerned with how we are going to eliminate our deficit than about whether or not we serve meals in a cafeteria or dining car, or whatnot.

The minute details which each member has gone into is a matter of interest, but they do not touch upon the question they should be interested in and that is: is the management of the C.N.R. an efficient management, or otherwise; and if you come to the conclusion it is not, for God's sake tell us and fire the lot of us. Take the general approach to it and let us work as a private enterprise corporation and manage it as such. Put us on the spot. Challenge us. Tell us why it is you do not think it is efficient and make us explain why we have a \$51 million deficit.

Mr. CHEVRIER: I think the statement made by the president is a very important one. It is important for many reasons, not only because, if it were adopted, it would be a change in the procedure that has been followed here; but it is important because of the fact that it comes from the president and it outlines a new method for the committee to follow. Whether or not the committee should follow that suggestion is not for me to say. I have my own personal views. I am sure we could not decide on that tonight, but it is something we could ponder over during the course of the next few months; and certainly from now until the committee meets next year, this would be a matter for the government, I presume, to determine.

The CHAIRMAN: It concerns government policy and it would be a matter of government decision.

Mr. FISHER: Is this not a House of Commons decision, as a committee of the house, and is it not up to us?

Mr. CHEVRIER: It would be a matter for the committee to determine in its report. If the committee feels what the president has said is worth trying, it might recommend it to parliament and, if they adopt it, we would try it next year.

The CHAIRMAN: I wish the members would think this over before we prepare our report to parliament. This is a very important statement that Mr. Gordon has made. For a long time I have felt exactly as the president has expressed.

I think there is some measure of futility in meetings such as we have had this year and last year. I just cannot conceive of any large organization, big company business and companies as large as the C.N.R. going before their shareholders which sometimes number 20,000 and go through what the C.N.R. goes through here. The president has placed before you his report. It is done

in a businesslike way, the same as any other company. Now, I realize the shareholders of this company are Canadians generally, in view of the nature of it, but it does not alter the responsibility of managing a competitive business.

I am very glad to hear your statement, Mr. Gordon, and I appreciate the expression of your views. Before we write our report, we will sit down and review your statement, as a committee. I think it is certainly thought provoking and constructive.

Mr. HEES: Could I make a suggestion. I am impressed by what Mr. Gordon has said. I also know that members of parliament do have specific questions that are very important to them and I think a number of those which have come up in the past two days are questions on which people like to receive answers. However, on Monday, Mr. Gordon came and spent all day seeing members of parliament who had brought up particular questions to me and on which they wished to see Mr. Gordon.

Mr. CHEVRIER: You did not tell me about that.

Mr. HEES: The point is that he was here to see people who brought particular questions they wanted answered.

Mr. FISHER: Your secretary has a number of questions that I brought up about the C.N.R.—or your department has—and I was not informed that he was here and available.

Mr. HEES: As far as we knew, the questions you brought up had been settled. Do not look so hurt about this; you have taken up eight times as much time as any other member—

Mr. FISHER: And I am not ashamed that I have.

Mr. HEES: —and you have had your fill in the last two days. It is not as though somebody “short-changed” you, because they have not.

I am simply saying that people who were not on this committee, and who had real problems, spoke to Mr. Gordon on Monday and got a great deal out of it; and I think Mr. Gordon felt it was a good and useful meeting.

I am suggesting that if we do decide to follow the kind of suggestion that Mr. Gordon has made, that the committee operate in a slightly different way, which appeals to me very much—

Mr. FISHER: It appeals to me; that is why I asked the question.

Mr. HEES: —perhaps he would be willing—and we could think this over—to come back here again in a couple of months and talk to members about questions which they have, instead of members storing them up for a whole year. In that way we could solve, not all the problems, but perhaps the real problems, by bringing them to his attention. Then we could continue in committee in the way he has suggested.

Mr. SMITH (*Simcoe North*): Mr. Chairman, I had just one thought as we were going along there. I wonder if in future years it would be possible to have a committee sitting in two parts? In other words, at the first part Mr. Gordon could come and make his general statement and questions could be asked that would not then be answered.

We have to have a compromise. We cannot do it exactly like a private corporation; but we have to make a compromise between the two systems, and this is what I was thinking as Mr. Gordon was speaking. I was wondering if we could sit in two parts. Mr. Gordon could come and make his report on general principles and policies, and he could be examined on those things. In that way, he would not need to bring his vast field of experts with him. Then he could come back later with the answers to those questions, with details which would have been asked for at the time.

The CHAIRMAN: I think we are getting a little off the track here. We are dealing with the terms of reference, and we do not need to review them in

disposing of this report at the present time. But I think this has been a deviation that has proved helpful, and I think we can all agree that the president has been most generous in giving this information and coming here prepared to answer all the questions which he has been asked. I think we should now proceed and try to deal with this report.

Mr. GORDON: Mr. Chairman, could I add one comment, so that when you are considering this point you may take this further suggestion into account?

Recognizing that individual members have questions and difficulties in their own constituencies, I would encourage members to write direct to the C.N.R. management. Keep it current and live through the year and get away from the assumption that all questions about the C.N.R. should be asked through the House of Commons. Some members only ask questions through the House of Commons, and we never hear from them directly.

We have members who write us regularly, and almost in 100 per cent of the cases, as far as I know, we have been able to satisfy them about their particular questions. If you get into that habit, I suggest it would not be necessary to go through this kind of meeting.

The CHAIRMAN: Gentlemen, are you ready for the motion?

Mr. DRYSDALE: Mr. Chairman, I wondered about the usefulness of this committee too, and I wonder if Mr. Gordon has any idea as to the approximate amount of money that has been involved in having these 20 gentlemen here, in addition to which there are the people who have been preparing this information.

Mr. CHEVRIER: That is not necessary.

Mr. GORDON: I do not know at all, because I do not know how much business I am losing in the meantime. There are a lot of people waiting for us in Montreal now.

Mr. FRASER: Mr. Chairman, I move that the annual report, the financial statement and the budget be adopted.

Mr. CHEVRIER: Not the budget.

Mr. FRASER: The annual report and the financial statements. That motion is seconded by Mr. Kennedy.

The CHAIRMAN: Moved by Mr. Fraser, seconded by Mr. Kennedy, that the annual report and the financial statements be adopted. What is your pleasure, gentlemen?

Motion agreed to.

The CHAIRMAN: We will have the budget in the morning. Can you give us any forecast, gentlemen, as to how long we might be on the budget tomorrow morning?

Mr. CREAGHAN: Let us spend not more than an hour on the budget and the audit.

The CHAIRMAN: You mean, each of you?

Mr. CREAGHAN: No. I would like to see the T.C.A. estimates started some time tomorrow.

Mr. BROOME: Could we go on with this tonight?

Mr. FISHER: No; we stop at 6 o'clock.

Mr. CHEVRIER: This is Wednesday.

The CHAIRMAN: It does not matter to me, but many of you young fellows do not like to work Wednesday nights.

Mr. GORDON: Mr. Chairman, I would mention that Mr. McGregor has laid on a very interesting trip for you tomorrow morning.

The CHAIRMAN: Mr. McGregor, the head of T.C.A.—you have all heard of him—is proposing to take us for a luncheon flight over the St. Lawrence waterway tomorrow morning at 11.30. He would like you to be at the front of the parliament buildings here at 11.30 in the morning. At what time do you think we will be back, Mr. McGregor?

Mr. G. R. MCGREGOR (*President and General Manager, Trans-Canada Air Lines*): At two fifteen, I believe.

The CHAIRMAN: In time for the house, anyway.

Mr. SMITH (*Calgary South*): I propose, then, that we commence with the T.C.A. at 2.30.

The CHAIRMAN: I am hoping to commence with T.C.A. at 10.30 a.m.

Mr. SMITH (*Simcoe North*): Shall we meet at 9 o'clock tomorrow morning, Mr. Chairman? We got away to a good start this morning at 9 o'clock.

Mr. CHEVRIER: Nine-thirty.

The CHAIRMAN: Very well, gentlemen, if it is your pleasure we will start at 9.30 tomorrow morning, and we anticipate that we will start with T.C.A. at 10.30 a.m. Then we will meet again at 3.30 in the afternoon, after the orders of the day.

Gentlemen, there has been a change. The clerk tells me that there has been difficulty in getting committee rooms. In the morning we will meet in room 253D instead of this room, at 9.30. That is the big railway committee room on the main floor.

EVIDENCE OF MORNING MEETING

THURSDAY, May 7, 1959.

The CHAIRMAN: Gentlemen, I see a quorum; would you come to order?

The report and the financial statement were carried last night, so the first item before us this morning is the capital budget of the C.N.R. We will proceed with that.

CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1959

	1959 Proposals	Cost to Complete Projects Authorized in Prior Years	Total	1959 Expendi- tures
	(000)	(000)	(000)	(000)
ROAD PROPERTY				
New Lines, Diversions and Abandon- ments.....	6,863	5,829	12,692	8,567
Roadway Improvements.....	62,991	1,501	64,492	62,802
Large Terminals.....	2,666	60,368	63,034	27,034
Yard Tracks and Sidings.....	3,708	801	4,509	2,948
Buildings.....	9,121	27,916	37,036	20,446
Highway Crossing Protection.....	455	281	736	736
Signals.....	5,104	6,250	11,354	7,073
Roadway and Shop Machinery.....	5,864	402	6,266	3,827
General.....	16,647	4,422	21,069	20,601
Communications.....	9,477	9,804	19,281	18,261
Road Property—Total.....	122,896	117,573	240,469	172,295
BRANCH LINES.....	—	12,972	12,972	10,141
HOTELS.....	845	4,298	5,143	3,568
EQUIPMENT.....	59,488	89,968	149,456	88,480
	183,229	224,811	408,040	274,484
INVESTMENT IN AFFILIATED Co's.....	17,416	—	17,416	17,416
	200,645	224,811	425,456	291,900
Less—Uncompleted Work.....	—	—	—	38,000
Total—C.N.R.....	200,645	224,811	425,456	253,900
T.C.A.—FINANCIAL REQUIREMENTS.....	57,000	—	57,000	57,000
	257,645	224,811	482,456	310,900

NOTE:

The amounts required for refunding and/or retirement of maturing securities are shown on Page 8 hereof.

CANADIAN NATIONAL RAILWAYS
STATEMENT OF FINANCING AUTHORITY REQUIRED
WITH RESPECT TO CAPITAL BUDGET

YEAR 1959

(000)

GROSS CAPITAL EXPENDITURES

Road Property.....	\$172,295	
Branch Lines.....	10,141	
Equipment.....	88,480	
Hotels.....	3,568	
	<u>274,484</u>	
Investment in Affiliated Companies.....	17,416	
	<u>291,900</u>	
Less—Uncompleted Work.....	38,000	
	<u>253,900</u>	
TOTAL—C.N.R.....		253,900
Trans-Canada Air Lines—Financial Requirements.....	57,000	
	<u>57,000</u>	
TOTAL—CAPITAL BUDGET.....		<u>310,900</u>

SOURCES OF FUNDS

Depreciation Accruals, etc.....	101,000	
Issue of Securities:		
Preferred Stock.....	22,700	
Additional Borrowing—1959.....	130,200	
	<u>253,900</u>	
Borrowing—Trans-Canada Air Lines.....	57,000	
		<u>310,900</u>

JANUARY 1, 1960 TO JUNE 30, 1960

Interim financial authority required with respect to capital projects authorized in 1959 and prior years

Gross Capital Expenditures

C.N.R.....	87,000	
T.C.A.....	43,000	
	<u>130,000</u>	

Financing thereof:

Funds available from depreciation accruals, etc.....	50,000	
	<u>80,000</u>	

Issue of Securities:

Preferred Stock.....	11,500	
Additional Borrowing—C.N.R.....	25,500	
T.C.A.....	43,500	
	<u>68,500</u>	
		<u>80,000</u>

COMMITMENT AUTHORITY REQUESTED

Authority is requested to enter into contracts prior to the first day of July 1960 for the acquisition of new equipment and for general additions and conversions that will come in course of payment after the calendar year 1959 in amounts not exceeding in the aggregate.....

81,000

EXISTING FINANCING AUTHORITY

Financing authority exists under CANADIAN NATIONAL FINANCING AND GUARANTEE ACT, 1958, Section 3 (1) (b) for an amount of \$134,000,000. Estimated expenditures against this amount are \$100,000,000 for Road and Equipment and \$34,000,000 for advances to Trans-Canada Air Lines.

CANADIAN NATIONAL RAILWAYS
SUMMARY OF ROAD PROPERTY CAPITAL BUDGET PROJECTS BY AREAS
TOTAL OF 1959 PROPOSALS AND COST TO COMPLETE PROJECTS APPROVED IN PRIOR YEARS

	Atlantic Region	Newfound- land District	Central Region	Western Region	Grand Trunk Western	Central Vermont Railway	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$
New Lines, Diversions and Abandonments.....	—	—	9,380,000	3,312,200	—	—	—	12,692,200
Roadway Improvements.....	7,766,600	2,120,600	16,362,400	37,136,400	292,400	813,200	—	64,491,600
Large Terminals.....	13,906,000	2,290,000	21,862,000	23,802,000	1,174,000	—	—	63,034,000
Yard Tracks and Sidings.....	1,843,800	—	806,300	2,819,000	35,000	5,000	—	4,509,100
Buildings.....	1,335,800	755,800	24,247,500	9,333,500	1,349,000	14,700	—	37,036,300
Highway Crossing Protection.....	27,900	—	326,800	275,000	105,900	—	—	735,600
Signals.....	2,200,000	—	4,139,100	4,834,900	—	81,200	—	11,354,000
Roadway and Shop Machinery.....	791,900	221,000	1,487,000	3,456,100	228,500	—	—	6,265,700
General.....	297,800	184,400	3,104,400	2,568,800	337,000	95,000	14,481,700	21,069,100
Communications.....	—	—	—	—	—	—	19,281,400	19,281,400
Road Property—Total.....	27,169,800	5,571,800	81,895,500	87,537,900	3,521,800	1,009,100	33,763,100	240,469,000
Expenditures—1959.....	17,676,800	4,206,800	54,753,800	59,420,100	2,934,100	974,100	32,329,600	172,295,300

CANADIAN NATIONAL RAILWAYS
CAPITAL BUDGET—YEAR 1959
BRANCH LINE CONSTRUCTION

Construction of the following new branch lines authorized as follows;

	Authorization	Mileage	Estimated Expenditures
Terrace—Kitimat.....	Chapter 20, 1952	46.0	11,500,000
Hillspport—Manitouwadge.....	Chapter 49, 1954	27.0	4,312,500
Beattyville—Chibougamau—St. Felicien.....	Chapter 49, 1954	297.6	40,825,000
Bartibog—Heath Steele Mines.....	Chapter 19, 1956	22.0	3,220,000
Sipiwesk—Thompson.....	Chapter 13, 1957	30.0	5,400,000
Optic Lake—Chisel Lake.....	Chapter 13, 1957	52.0	10,165,000

	Authorized Expenditures		Estimated Expenditures to end of 1958	Cost to Complete	Expenditures 1959
	Total	Capital			
Terrace— Kitimat.....	11,500,000	11,500,000	10,920,000	75,000	75,000
Hillspport— Manitouwadge.....	4,312,500	4,312,500	2,594,000	78,000	78,000
Beattyville— Chibougamau— St. Felicien.....	35,000,000	34,930,000	30,417,000	4,513,000	4,433,000
Bartibog— Heath Steele Mines.....	2,800,000	2,800,000	2,422,000	35,000	35,000
Sipiwesk— Thompson.....	4,500,000	4,500,000	4,005,000	495,000	495,000
Optic Lake— Chisel Lake.....	10,165,000	10,165,000	1,414,000	8,751,000	6,000,000
	68,277,500	68,207,500	51,772,000	13,947,000	11,116,000
Less Subsidy on Beattyville— Chibougamau— St. Felicien.....	7,300,000	7,300,000	6,325,000	975,000	975,000
	60,977,500	60,907,500	45,447,000	12,972,000	10,141,000

CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1959

HOTELS

	1959 Proposal	Cost to complete projects authorized in prior years	Total	1959 Expenditures
	\$	\$	\$	\$
"Nova Scotian" Halifax, N.S.....	368,000	3,792,000	4,160,000	2,585,000
"Chateau Laurier" Ottawa, Ont.....	176,000	46,300	222,300	222,300
"Fort Garry" Winnipeg, Man.....	82,600	155,300	237,900	237,900
"Bessborough" Saskatoon, Sask.....	73,050	17,450	90,500	90,500
"Jasper Park Lodge" Jasper, Alta.....	80,000	75,000	155,000	155,000
Various Hotels.....	65,000	—	65,000	65,000
	<u>844,650</u>	<u>4,086,050</u>	<u>4,930,700</u>	<u>3,355,700</u>
"Queen Elizabeth" Montreal, Que.....	—	212,000	212,000	212,000
	<u>844,650</u>	<u>4,298,050</u>	<u>5,142,700</u>	<u>3,567,700</u>

SESSIONAL COMMITTEE
CANADIAN NATIONAL RAILWAYS
CAPITAL BUDGET—YEAR 1959
EQUIPMENT

	1959 Proposals	Cost to complete projects authorized in prior years	Total	1959 Expenditures
	\$	\$	\$	\$
NEW				
Authority is requested for the financing to the extent indicated of the undernoted equipment, the financing and/or ordering of which was authorized in Financing and Guarantee Acts in prior years.....	—	86,873,200	86,873,200	80,753,200
284 Locomotives				
20 Steam Generator Units				
28 Passenger Train Cars				
1,492 Freight Cars				
13 Work Equipment Units				
<u>1,837</u>				
Authority is requested for the ordering of equipment estimated to cost \$55,308,000 of which \$758,000 will be required to finance anticipated deliveries in 1959.....	55,308,000	—	55,308,000	758,000
265 Locomotives				
100 Freight Cars				
8 Work Equipment Units				
<u>373</u>				
Provision for special experimental equipment and for new types of equipment to be tested in operation.....	—	1,000,000	1,000,000	1,000,000
(say)	55,308,000	87,873,200	143,181,200	82,511,200
				82,511,000
ADDITIONS, CONVERSIONS AND HIGHWAY				
VEHICLES.....	4,180,400	2,094,900	6,275,300	5,969,000
TOTAL—EQUIPMENT.....	<u>59,488,400</u>	<u>89,968,100</u>	<u>149,456,500</u>	<u>88,480,000</u>

NOTE;

The particulars of the equipment required as indicated may be revised as to numbers and classes, but the total cost will not exceed the amount of the authorizations requested above.

CANADIAN NATIONAL RAILWAYS

CAPITAL BUDGET—YEAR 1959

INVESTMENT IN AFFILIATED COMPANIES

	1959 Budget:
<i>Toronto Terminals Railway Company</i>	
Estimated requirements—\$560,000.	
C.N.R. proportion—50%.....	280,000
<i>Northern Alberta Railways</i>	
Estimated requirements—\$3,670,000.	
C.N.R. proportion—50%.....	1,835,000
<i>Chicago and Western Indiana Railroad</i>	
Advances under Agreements March 31, 1926 and May 1, 1952.....	300,000
<i>Atlantic and St. Lawrence Railroad Company</i>	
Purchase of Stock.....	1,000
<i>Canadian National Transportation, Limited</i>	15,000,000
TOTAL—C.N.R.....	17,416,000
<i>Trans Canada Air Lines—Financial Requirements</i>	
Advances in respect of Capital Expenditures (Year 1959 only).....	57,000,000

CANADIAN NATIONAL RAILWAYS
RETIREMENT OF CAPITAL OBLIGATIONS
INCLUDING EQUIPMENT PRINCIPAL PAYMENTS
DURING THE YEAR ENDING DECEMBER 31st, 1959

Due Date 1959		Amount
Jan. 15	Canadian National Railways Company 3% Guaranteed Bonds.....	\$35,000,000
Jan. 15	Canadian National Railways 2½% Equipment Trust Series "V" Certificates	675,000
Mar. 15	Canadian National Railways 2½% Equipment Trust Series "U" Certificates	1,100,000
July 15	Canadian National Railways 2½% Equipment Trust Series "V" Certificates	675,000
Sept. 15	Canadian National Railways 2½% Equipment Trust Series "U" Certificates	1,100,000
		<u>\$38,550,000</u>

CANADIAN NATIONAL RAILWAYS
OPERATING BUDGET—YEAR 1959

	1959 Budget:	1958 Actual:
	(000)	(000)
OPERATING REVENUES.....	<u>\$756,500</u>	<u>\$704,947</u>
OPERATING EXPENSES		
Maintenance:		
Road.....	164,600	157,280
Equipment.....	<u>154,000</u>	<u>145,971</u>
Total.....	318,600	303,251
Transportation.....	<u>330,400</u>	<u>319,381</u>
	649,000	622,632
Traffic.....	14,800	14,774
Miscellaneous Railway Operations.....	6,000	5,936
General.....	<u>58,900</u>	<u>56,679</u>
	<u>728,700</u>	<u>700,021</u>
NET OPERATING REVENUES.....	<u>27,800</u>	<u>4,926</u>
TAXES AND RENTS.....	<u>19,800</u>	<u>19,190</u>
Net Railway Operating Income.....	8,000	(14,264)
OTHER INCOME.....	<u>11,400</u>	<u>9,311</u>
Available for Fixed Charges.....	19,400	(4,953)
FIXED CHARGES.....	<u>53,800</u>	<u>46,638</u>
Deficit.....	<u>\$ 34,400</u>	<u>\$ 51,591</u>

The CHAIRMAN: In view of the fact that we have a larger room this morning, I hope you do not assume that you will have a lot more latitude than you had yesterday. At this time we will have a statement from the President of Canadian National Railways.

Mr. DONALD GORDON (*President, Canadian National Railways*): Gentlemen, I would like to make a brief introductory statement. You may recall that I said last year before this committee that we were about midway in a program of heavy capital expenditures, which commenced in 1950. This program was designed first of all to eliminate the backlog of deferred maintenance that had built up during the war years and, secondly, to modernize our plant and equipment to keep pace with the ever-increasing competition. The 1959 capital budget is entirely consistent with this program and you will be interested to see that some major parts of the plan are nearing completion.

At this time, I would suggest the committee members turn to page 1 of the capital budget and estimated income account in this white paper. You will find that page 1 presents the summary of the capital budget for the year in a form similar to that used in recent years. If we forget for the moment the financial requirements for T.C.A. at the bottom of the form, you will see under the column headed "1959 proposals" that during the year it is proposed to undertake new projects which total \$200,645,000, and it is proposed to continue work on previously authorized projects costing \$224,811,000, which is shown in the next column under the heading "cost to complete projects authorized in prior years". Now, moving over to the "total" column, there will be in play projects which will cost \$425,456,000. This figure is \$75 million lower than the figure last year and indicates that some of the major projects are either well underway or nearing completion.

The right-hand column, under the heading "1959 expenditures" is the column in which the Minister of Finance is particularly interested because it sets out the portion of the total cost of the projects that will have to be financed during the year 1959. You will see the figure is \$253,900,000, which is about \$3,700,000 lower than 1958.

Then, in addition to that, our budget must include the financing requirements of T.C.A. You will note that this has been added to our figure, which gives a grand total for the cash required during the year of \$310,900,000.

Now gentlemen, as I say, that is a summary, and we can proceed from there.

The CHAIRMAN: Would it be satisfactory to the members of the committee to take this white paper page by page and have the president give a brief synopsis of each page?

Mr. McPHILLIPS: You mentioned taking it a page at a time. Do we reserve our questions until completion of all the pages or do we ask them on each page?

The CHAIRMAN: Page by page. If there are any questions left over when we have completed this white paper, I will give you the latitude then to ask them.

Mr. McPHILLIPS: So long as it is understood the questions will be reserved for the end.

The CHAIRMAN: Yes. You can ask questions at the end, but I think it would expedite things if you could concentrate on each page as we come to it.

Mr. McPHILLIPS: I wanted to make sure on this point because there is a question I have to ask in connection with page 1; it concerns the T.C.A. financing.

The CHAIRMAN: You may ask your question now, Mr. McPhillips.

Mr. McPHILLIPS: Purely for information, I would like to know what is the basis for this? I suppose it is due to the fact that T.C.A. is not strong enough to do its own borrowing.

Mr. GORDON: The T.C.A. capital requirements are not of a size that would make it appropriate to go to the public market for an individual bond issue in T.C.A.'s name. From the financial point of view it is felt by the government, the Bank of Canada and ourselves that it is better to include the financing requirements for them through our budget. We act as bankers but we break even in the process. It is purely formal in including it here, so that when we would float a bond issue we could include their requirements under the C.N.R.

Mr. McPHILLIPS: Probably you can get a better deal than they can.

Mr. GORDON: Yes, because they have a smaller amount and it would cost a little more money. Of course, the detail of the financial requirements of T.C.A. will be dealt with by Mr. McGregor, when you come to his budget.

Mr. McPHILLIPS: I just wanted to get that point clear. Do you take from them just an acknowledgement of the debt?

Mr. GORDON: No, we have a formal note from them which represents the indebtedness they owe us.

Mr. DRYSDALE: I have a question in connection with a matter of comparison. I have endeavoured to compare the figures you have for 1959 with those for 1958, and I think this would be on page 32 of the annual report. Yet the items do not appear to be entirely comparable. In future years, would it be possible to have the 1958 expenditures so that we could see where there was an increase or a decrease, and also if the items would be retained on a comparable basis. Under "road property" you have "new lines, diversions and abandonments" and on page 32 the only thing I can find is line diversions, amounting to \$1,579,423.

Mr. GORDON: Yes. Those are the budget figures, whereas the figures on page 32 are actual figures. We will take your suggestion in hand. Do you think it would be more useful next year to have the actual expenditures or do you want to compare budget with budget?

Mr. DRYSDALE: I suppose budget with budget.

Mr. GORDON: We are trying to make the form as simple as possible. What you suggest is quite easy to accomplish. However, I have comparison figures before me.

The CHAIRMAN: Mr. Drysdale, you could always check them off yourself. In that way it would save a lot of expense.

Mr. DRYSDALE: Yes, but it would save a lot of time if we had them on the same sheet of paper.

Mr. GORDON: Mr. Drysdale, next year I will try to construct a form which you have in mind.

Mr. DRYSDALE: At present there is no comparison of the figures in your annual report with the headings used, and if you could use similar headings it would be most helpful.

Mr. GORDON: That is a practical suggestion and we will make a note of it.

The CHAIRMAN: Are there any other suggestions or questions; if not, we will proceed to page 2 and have a brief statement from the president.

Mr. GORDON: I am going to deal with this page by page in order to show the committee how the figures work out.

Page 2 is a statement of the financing authority required with respect to the capital budget. A figure of \$310,900,000 is shown. First of all, I will define the figure. \$253,900,000 is the total for the C.N.R., and the grand total of \$310,900,000 is the total cash required this year to finance this budget. This checks off with the figure shown on the first page under the heading "1959 expenditures". It breaks it down into the headings, as shown. There is

\$172,295,000 for road property, and so on down the list. On the following pages you will see the details. The heading "sources of funds" is intended to show the committee from where we get the money, and to finance the budget we take \$101 million out of our own earnings in the form of depreciation accruals. We propose to issue securities in the amount of \$22,700,000 which represents preferred stock sold to the government and the \$130,200,000 is our estimate of the additional borrowings that we will have to undertake to finance this budget, plus the T.C.A.

Mr. CHEVRIER: What are the terms of the preferred borrowings?

Mr. GORDON: That was the 4 per cent stock. That was the arrangement under the recapitalization act.

Mr. McPHILLIPS: Does this railway borrowing of \$150 million enter into this, or is that something else?

Mr. GORDON: The process is this. First of all, we get advances from the government direct. We get those advances during the year on a short-term basis with the understanding that when the government feels the time has come for the Canadian National Railways to make an issue on the market we undertake to go to the market, raise that money in our own name, with the government's guarantee, and then we repay the temporary advance which we have received from the government. In other words, the point I want to emphasize is that all our borrowings from the government are short-term borrowings, with the intention of selling a bond issue as quickly as is deemed possible. You will notice that only yesterday we closed the books for \$150 million. That is for past borrowing.

Then the summary here, of January 1 to June 30, is an arrangement whereby that enables us to get interim financing authority to permit us to continue work during the first six months of 1960 on projects begun in 1959. Without this interim authority, all work on capital projects would theoretically have to stop December 31 and could not be started again until the new Financing and Guarantee Act had been passed—usually in June.

The sum is arrived at by reviewing our equipment delivery schedules, obtaining advice from T.C.A. on their requirements and estimating the extent of capital requirements during the first six months of the year for road property, hotels, and so on. The amount to be spent is a portion of the difference between the expenditures during 1959 of \$310.9 million and the total cost to complete the projects in play, \$482.5 million, shown on page 1 of the budget.

However, the funds for each specific project financed under this authority must be included in the 1960 budget as a specific expenditure item. That is made up of locomotives costing \$32 million, passenger train cars, 19 in number, \$5 million, and the road property, branch lines and so on, \$50 million, which totals \$87 million and then \$43 million is estimated for the T.C.A. requirements, making up the figure of \$130 million.

Then, you will notice the other figure below that, a figure of \$81 million, down at the bottom, and that is the commitment authority of \$81 million designed to permit us to make commitments or enter into contracts for specific items in the budget any time between January 1, 1959 and July 1, 1960.

As an example, we are asking authority in the 1959 budget to place orders for 265 diesels, which will not be delivered or financed until 1960. This commitment clause permits us to delay ordering these until after the end of 1959, should we so desire.

So that the \$81 million also represents a portion of the difference between the 1959 expenditures and the total cost to complete projects in play.

The last section entitled "Existing financial authority", right at the bottom of the page, simply restates the interim authority we had received in the 1958 Financing and Guarantee Act for the first six months of 1959. Next year, as I have tried to explain, this section will show the \$130 million for which we are now asking interim authority in the middle of the page.

This page really tries to summarize the technical legislative requirements which have to appear in the Financing and Guarantee Act, which comes before the house for approval in the course of the next month, and it is to provide legislative authority for the various items.

The CHAIRMAN: Any questions or suggestions regarding page 2?

Mr. CARTER: How much of that \$101 million for depreciation is actual depreciation? That came out of last year's earnings, did it?

Mr. GORDON: No; this is what we estimate will come out of 1959 earnings, and it is made up—it is on a straight-line depreciation based on the lives, as we call it, of the various items of equipment.

The CHAIRMAN: Any other questions?

Mr. CATHERS: Supplementary to that, your estimate of a deficit of \$51 million last year would include depreciation?

Mr. GORDON: Yes.

Mr. CATHERS: Of how much, roughly?

Mr. GORDON: You are talking about 1958?

Mr. CATHERS: Yes.

Mr. GORDON: Last year we showed \$118 million depreciation in our 1958 financing. There are always a few quibbles from the accountants, because they want to make it a decimal point, but I have given you the round figures.

Mr. CATHERS: Then really before depreciation there would be a profit of about \$60 million, roughly, if you show a loss of \$51 million?

Mr. GORDON: I am wrong, that depreciation figure is not the right figure. The actual depreciation figure is about \$72 million. The total between that and the \$118 million represents a draw-down in working capital and things of that kind. It is \$72 million, so it would be roughly \$20 million on the basis you are talking about.

Mr. CHEVRIER: Is there any of this authority for financing of Canadian National Railways operations to be found in the Financial Administration Act?

Mr. GORDON: Yes, that is where it will be found; you will find those figures in the Financing and Guarantee Act.

Mr. CHEVRIER: I was not thinking of the Financing and Guarantee Act, which will be passed after the report is made to the house. I was thinking of the general act, the Financial Administration Act, the various sections of that act which provide for the financing of certain crown corporations. Is any of the authority for the financing of the Canadian National Railways to be found in that act as opposed to this one here, which we will pass later on in the session?

Mr. GORDON: No, I do not think there is. There may be an overriding authority, but our specific authority is found in the Financing and Guarantee Act.

Mr. CHEVRIER: What bothers me at the moment is this: when the amount that you need, as authorized by the act which parliament will pass soon, is not sufficient what do you do then?

Mr. GORDON: Well, it has to be sufficient.

Mr. CHEVRIER: In the case of 1958, for instance, the amount authorized was \$134 million, \$100 million of which went for the Canadian National and \$34 million for the T.C.A. Suppose you went beyond that?

Mr. GORDON: We cannot, we would have to hold the project up, whatever it might be. We cannot exceed in our purchases, or anything else, our capital authorization.

Mr. CHEVRIER: But surely there must be some other method whereby if you have not got the required capital you can borrow it in some other form so as not to hold up a project, and I thought that was found in the Financial Administration Act?

Mr. GORDON: No, what we have done—and perhaps this is what you are thinking about—we have on occasion had the government give us their agreement that we could include in our forthcoming budget an item for certain things we had in mind, and we could then place the order on the assumption that that will carry the support of government on the forthcoming Financing and Guarantee Act. But that is purely on the basis that the government tells us, "You can go ahead and do a certain project and you can count on our support when it comes through". But we have to have specific authority for anything we pay out.

The CHAIRMAN: Any other questions?

Agreed to.

The CHAIRMAN: The next is merely a table of the road property capital budget.

Mr. GORDON: This summarizes here the total cost to complete in each of the various districts various projects under each of the various headings. The total is shown on the bottom under "Road property—total", which is the grand total. That is the amount of money we expect to spend this year, that is, the total for 1959, but we have broken this down to show you the total projects in play. It is on this page that you see the summary of the actual kind of things we have in mind.

In the past it had been thought that this sort of presentation gave you sufficient to grasp the outlines of the railway expenditures, but if there are any details in connection with these, now is the time for you to mention them.

Mr. FRASER: May I ask, that \$1,349,000 under Grand Trunk Western would include the Dearborn station in Chicago, would it?

Mr. GORDON: No, that item is not in, Mr. Fraser. I will tell you in a moment how the \$1,349,000 is made up.

The main item under that heading is the conversion of the locomotive shops to handle diesels in Battle Creek, Michigan, and that is a grand total of \$1,180,000 out of the \$1,349,000.

Mr. FRASER: Thank you.

The CHAIRMAN: Any other questions?

Mr. CHEVRIER: You do not divide the United States lines separately from the Canadian lines?

Mr. GORDON: Yes, they are shown there, Grand Trunk Western and Central Vermont. You are thinking of the New England line down to Portland?

Mr. CHEVRIER: Yes.

Mr. GORDON: It is treated as a division of the central region. In the case of the Grand Trunk Western and the Central Vermont, we treat them as separate corporation entities, but the New England line is treated as part of the Canadian lines.

Mr. FRASER: In regard to the Dearborn station in Chicago, I know when I was there last they did not have enough advertising there for the Canadian lines—what I mean is, on the wall.

Mr. GORDON: It is a bit inconspicuous now that you mention it.

Mr. FRASER: Santa Fe has it, but the Grand Trunk Western and Canadian National have not, and it struck not only me but the American people.

Mr. GORDON: I will make a note of that and put it up to our public relations and see what they can do.

Mr. McPHILLIPS: Under "Large terminals" in the western region there is an amount of some \$23 million. That is mostly to be expended where?

Mr. GORDON: In Winnipeg.

Mr. DRYSDALE: Mr. Chairman, could I again make the same suggestion? For example, I notice in the Atlantic region there is a drop of almost \$10 million. I think it would help in future years if we could have a comparison with the preceding years.

Mr. GORDON: Did you say a drop of \$10 million? I think you are misreading the figure.

Mr. DRYSDALE: I am sorry.

Mr. GORDON: The \$27,169,000 is the gross cost of projects now in play; the \$17,600,000 is what we expect to spend this year and actually compared with last year it is an increase. The gross total I believe last year was \$26,733,000 as against \$27,169,000.

The only difficulty with making comparisons along the line you have mentioned is that it gets a terribly complicated looking form; but it just struck me, as I am looking at it, that perhaps we could underline last year in red, or something of that kind. We will try it out.

Mr. CREAGHAN: Why do you keep the Newfoundland Railway separate, rather than making it part of the Atlantic region?

Mr. GORDON: Oh, for convenience, generally. It is a separate sort of operation, because it is narrow gauge to start with and it needs a specialized approach because of that particular factor. We have a manager and a general superintendent in charge of the Newfoundland district as such, but we find it more convenient for administrative purposes to keep it separate.

The CHAIRMAN: Any further questions?

Mr. CARTER: Could I just ask one question on the previous page? Is it contemplated putting the Newfoundland district in the Atlantic region in time?

Mr. GORDON: It is now part of the region, only we call it Newfoundland district.

Mr. CARTER: But you separate the accounting?

Mr. GORDON: For this purpose we separate it for capital requirements here, because the Newfoundland equipment and administration is a specialized type.

The CHAIRMAN: Any other questions or suggestions?

Agreed to.

The CHAIRMAN: Page No. 4, "Branch line construction".

Mr. GORDON: I think these are more or less self-explanatory. This is merely setting down the estimated costs and the expenditures to date, and what is needed to complete in the various lines that are shown there.

Mr. CHEVRIER: Why is there still \$75,000 spent on the Terrace-Kitimat line, although it was authorized seven years ago?

Mr. GORDON: It is a clean-up item, only a sort of trimming off the banks and some widening of the line that we must finish after it is actually in use.

Mr. CHEVRIER: Does that apply to the Manitouwadge line, as well?

Mr. GORDON: Yes, that is correct, sir.

The CHAIRMAN: On the next one, \$4 million.

Mr. CHEVRIER: No, \$78,000.

Mr. GORDON: The Chibougamau-St. Felicien line, yes. That is, of a total expenditure of \$35 million we have spent \$30,417,000, with a cost to complete of \$4,513,000, and we expect to spend of that, in 1959, \$4,433,000, which will leave the line practically complete with an item of about \$80,000 to trim it up.

Mr. CHEVRIER: Is that inclusive or exclusive of the subsidy?

Mr. GORDON: That includes the subsidy. You will see the subsidy is taken off down below.

The CHAIRMAN: Any other questions?

Mr. CHEVRIER: Yes; may I ask this question, Mr. Chairman? I do not see anything on this capital budget for the Pine Point railway. Does that mean there is nothing in the capital budget for 1959 for that line?

Mr. GORDON: That means that the Canadian National Railways is not estimating or expecting to spend any money on construction of a line to Pine Point in the year 1959.

The CHAIRMAN: Is that satisfactory, Mr. Chevrier?

Mr. CHEVRIER: Perhaps I can follow that up with a question to the minister, by asking him this: does it not follow from that, that there can be nothing, therefore, in connection with the Pine Point railway until the next business of the Canadian National Railways is considered by this committee, which would be 1960?

Hon. GEORGE HEES (*Minister of Transport*): No, that is not correct.

Mr. CHEVRIER: Why not?

Mr. HEES: Because, as Mr. Gordon has said, from time to time if special expenditures are found necessary and desirable the government gives the assurance to the railway that those expenditures will be passed by the government and the railway is enabled to go ahead. We have done that on several occasions.

Mr. CATHERS: I think you two should sit together.

The CHAIRMAN: Mr. Chevrier's question might be in order in the house.

Mr. GORDON: I will repeat exactly what I said. I was reminding the minister that it would be quite possible to include in the branch line legislation itself. In the legislation, any necessary financing authority could be included.

Mr. CHEVRIER: The branch line legislation which the minister has spoken of, I take it will not be introduced until 1960?

The CHAIRMAN: This is a little off-side here. It might be in order in the house, but not here.

Mr. CHEVRIER: Why not?

Mr. HEES: But, Mr. Chevrier, if there is any preliminary work considered to be necessary and desirable then we can certainly advise the Canadian National by a letter to them of their authority to go ahead.

Mr. CHEVRIER: Is this a new method of going ahead?

Mr. HEES: No, this has been done before, as you know.

Mr. CHEVRIER: I have never heard of any such letters.

Mr. HEES: Well, maybe the old government was not as up to date as the new government.

The CHAIRMAN: Any other questions or suggestions?

Mr. FRASER: May I ask Mr. Gordon, in respect of these branch lines to Optic lake and Chisel lake, if they are mining in there and if they will have ore to bring out?

Mr. GORDON: In each case these lines are being built under a traffic guarantee principle, and the building of the line is being timed so that we expect to start traffic as soon as they are completed.

The CHAIRMAN: Any other questions?

Mr. CREAGHAN: Is this budget perused and studied by the government treasury board?

Mr. GORDON: Yes indeed. I thought it was clear that this budget is approved by order in council before it reaches this committee.

Mr. CREAGHAN: Now, when is that approval obtained—during the last couple of weeks?

Mr. GORDON: Well, it was tabled, it should have been tabled two weeks ago, I believe.

Mr. CHEVRIER: So was the budget of the Canadian National (West Indies) Steamships, Limited, tabled.

The CHAIRMAN: Any further questions?

Agreed to.

The CHAIRMAN: Page 5, "Capital budget-hotels." I presume this is self-explanatory too. Any questions on the Nova Scotian hotel, Halifax, to start with?

Mr. FRASER: On the Chateau Laurier, Mr. Chairman, would the president tell us just exactly what this is?

Mr. GORDON: On the Chateau Laurier?

Mr. FRASER: Yes, \$176,000.

Mr. GORDON: The \$176,000 is the installation of radio and television sets in bedrooms and suites, estimated at \$176,000.

Mr. FRASER: That should bring in extra revenue, not in increased rates but in increased traffic into the hotel?

Mr. GORDON: Well, I am not going to guarantee no increase in rates. As a matter of fact if we have to meet anything like the wage demands now upon us there will certainly have to be a consideration of increased rates, but it will not necessarily tie in directly to the television.

The CHAIRMAN: Any other questions on the Chateau Laurier? Fort Garry Hotel—has anybody any questions to ask on that one? Bessborough, Saskatoon?

Mr. BROOME: We had those, we went over the thing yesterday.

The CHAIRMAN: Jasper Park Lodge?

Mr. HORNER (*Jasper-Edson*): I would like to ask the president what that \$155,000 includes for Jasper Park Lodge?

Mr. GORDON: For Jasper Park Lodge there is \$80,000 covering the installation of a cocktail lounge and the necessary equipment, and also the provision of ten bedrooms in the unfinished portion of the second floor of the central building. Those of you who know the lodge may not be aware that there is a staircase that leads up to an unfinished portion and in that portion we have now decided we can put in ten bedrooms.

Mr. HORNER (*Jasper-Edson*): Are you putting in an elevator?

Mr. GORDON: There is a small elevator going in along with it, which is a service elevator, but it can take up clients who wish to use it.

Mr. PASCOE: Mr. Chairman, seeing we are asking for details could we also have details on the Bessborough, then?

Mr. GORDON: Yes, there is \$90,050 in total, representing the installation of water softening and split stream feeding water equipment, costing \$22,500; and there is \$68,000 covering replacement of furnishings on the third and fourth floors.

Mr. DRYSDALE: Is the Hotel Vancouver not included in this rundown?

Mr. GORDON: It would be in here if we had any capital in mind, but we have no capital expenditure in mind.

Mr. McPHILLIPS: In regard to the third floor in the Bessborough, what in the world wore that furniture out? Was it university students? It is much worse than any other part of the hotel.

Mr. GORDON: May I ask Mr. Sommerville, Mr. Chairman?

Mr. CATHERS: Maybe members of parliament.

Mr. R. SOMMERVILLE (*General Manager, Canadian National Hotels*): It is part of a program we are starting there.

Mr. GORDON: It was not wear on the third and fourth floors. It is part of a program and we just happen to be dealing with the third and fourth floors this year?

Mr. SOMMERVILLE: Yes.

Mr. FRASER: I just wanted to ask the president if he has not found out that the rates in our hotels here are really as high as or higher than what they are in New York City?

Mr. GORDON: In Ottawa?

Mr. FRASER: Yes.

Mr. GORDON: Oh, I would doubt that. I have not got a ready comparison before me.

Mr. FRASER: For the same kind of accommodation?

Mr. GORDON: Of course, that becomes a matter of opinion again, but we have watched our hotel rates pretty carefully and we regard them as competitive.

Mr. FISHER: Mr. Chairman, I wonder at the propriety of this question. It seems Mr. Fraser is a consumer in this regard and hence is an interested party.

The CHAIRMAN: I think you are insinuating motive, Mr. Fisher.

Mr. CARTER: I was wondering about the Nova Scotian. Apparently you will not complete work on the Nova Scotian this year, is that right?

Mr. GORDON: No, we will spend \$2,585,000 of the total \$4,160,000 left; in other words, the hotel will not be finished this year.

Mr. CARTER: Have you a target date?

Mr. GORDON: Yes, we have been delayed, I think, about three months because of delay in steel but we hope to complete it sometime during 1960.

Mr. CHOWN: For the record, Mr. Chairman, first of all are plans under study for the expansion of the Fort Garry hotel in Winnipeg?

Mr. GORDON: Yes, we have made no actual decision about the Fort Garry hotel, but we have a very intensive examination under way now on two points. One is the architectural possibilities of an expansion. It is a very difficult job, you see, to see how that hotel can be appropriately expanded from an architectural point of view. That is important, of course, and the second thing is we have an economic study under way to see if we can come up with justification in trying to estimate traffic that might ensue from an expansion of the hotel.

Mr. CHOWN: Sorry to revert to this item, but I wonder if you would be good enough to describe briefly what the \$155,300 for completion of authorized projects is for the current year?

Mr. GORDON: Where is that?

Mr. CHOWN: The Fort Garry hotel.

Mr. GORDON: The total of \$237,900 covers the work that has been done over a couple of years. There is a total, as I say, of \$237,900. Of that, there is \$17,300 which represents fire protection and also \$158,000 to provide a new cafeteria, \$24,800 for a new electric substation and distribution equipment and \$37,800 covering a new eight roll flat work ironer and canopy.

Mr. CHOWN: I did not get the last one.

Mr. GORDON: It is a laundry item, an eight roll flat work ironer for \$37,800.

Mr. BROOME: Mr. Gordon, I would like to ask you a question, that after the years of experience you have had in running railroads and hotels, have you given consideration to getting out of the hotel business?

Mr. GORDON: Well, I said yesterday we are not giving any further consideration to it, but we did, a few years ago, get out of all our smaller hotels which we felt did not meet the standard of the chain of hotels which we now have. In respect of the chain we have at the present time, we are not giving any thought to getting out of that particular list.

The CHAIRMAN: Are there any other questions?

Mr. FISHER: Mr. Chairman, could you file the projected capital expenditures in connection with the Chateau Laurier, with the clerk, so that we could have it on the record.

Mr. GORDON: Well, I can give you that here in a moment.

The CHAIRMAN: He put that on the record.

Mr. GORDON: Yes, they are on the record. It is largely radio and television items, \$176,000, the big item.

The CHAIRMAN: Are there any other questions?

Paragraph 6, capital budget regarding equipment. Is there anything contentious there?

Mr. DRYSDALE: I was wondering at the bottom of the page additions, conversions and highway vehicles, what does that mean "highway vehicles"?

Mr. GORDON: That is the automobiles and so forth that we use on the highway. It covers investigation work, solicitation work, and B & B gangs, for instance.

Mr. DRYSDALE: This is not transport?

Mr. GORDON: No, not new trucking. The trucking items comes on the next page.

The CHAIRMAN: Are there any other questions on page six?

Agreed.

Let us take page seven.

Mr. CHEVRIER: Following up that question, Mr. Gordon, what is the \$15 million for, then, that envisages the purchase of trucks?

Mr. GORDON: The \$15 million is an item we have placed in our budget against the possibility of our being able to acquire some trucking businesses and to go forward with the plans that I mentioned during our discussions the last couple of days. This is a permissive item only; we have not that earmarked at the moment.

Mr. DRYSDALE: When was the Canadian National Transportation Limited formed?

Mr. GORDON: Oh, it is way back. It has been in existence since around 1927.

Mr. DRYSDALE: Does the company have any assets?

Mr. GORDON: Yes it does.

Mr. DRYSDALE: What?

Mr. GORDON: It has been mostly in the past for items collateral to the railway business. You see we have a number of bus operations in the Canadian National right now and this is the company we have held those in. We intend, as we get on with our organization, if we do successfully enlarge our trucking operations, to concentrate our trucking operations in this company.

Mr. FISHER: What is the advantage of buying in rather than starting from scratch?

Mr. GORDON: Two advantages: more than two, but two main advantages. The first is the question of organization. We would require an experienced staff, and trucking is a very specialized business. Railroaders do not necessarily know how to run trucks so the question of getting an organization is important to us. The second has to do with franchises. If we simply embarked on our own we would have difficulty in acquiring franchises for certain routes which would be competitive, because these franchises are protected by governments. So we think it would be easier for us to meet the legislative requirements in most cases by buying out rather than forcing our way in.

Mr. FISHER: Well, this means that the type of operations you could buy into are rather limited, that is to get the kind of scope you are talking about?

Mr. GORDON: There is that difficulty there, and that is one of the reasons we have had to proceed cautiously and carefully because we do not want to buy just for the sake of buying. It has got to be something appropriate on which we can build. We are trying to buy the backbone of an organization first.

Mr. FISHER: These purchases, are they sort of share companies with shares on the open market that you can buy into and get control that way?

Mr. GORDON: They vary in that respect, but we would not do it that way.

Mr. FISHER: Well, it has been done that way in one instance, in Canada, has it not?

Mr. GORDON: Not buying on the open market, to my knowledge. It is usually a negotiated deal.

Mr. FISHER: But if shares were available—

Mr. GORDON: It could be done that way. I am not aware that it has been done through the acquiring of shares in the open market.

Mr. McPHILLIPS: On the Pacific coast it may be a loose term, but one hears reference to Canadian National steamships. Is there any such company as that? For instance, your last cruise ship, the *Prince George*, at the bottom of the advertisement they say "Canadian National steamships". That may just be a term of convenience.

Mr. GORDON: On page 34 of the annual report you will see item nine, Canadian National Steamship Company Limited, and it is in that company that we operate the *Prince George*. Formerly we operated other major ships on the Pacific coast but they have now dried up. We have a company by that name.

Mr. McPHILLIPS: I notice there are no advances being made to it.

Mr. GORDON: No, no capital requirements. This is capital we are talking about, not maintenance.

Mr. HORNER (*Jasper Edson*): I wonder if I could ask Mr. Gordon if he has any idea how soon he and Mr. Crump are going to have their look at the Northern Alberta railways and when we can expect perhaps some action in that regard?

Mr. GORDON: It is very current right now. We have a special committee sitting on it to analyse the details of operations, and see if they can come up with some suggestions to improve the whole tone of that railway. It is a current item. If I could ever get back to my desk I could deal with it.

The CHAIRMAN: Are there any other questions on page seven.

Agreed.

Page eight, retirement of capital obligations including equipment principal payments, during the year ending December 31, 1959.

Mr. GORDON: These are just the maturities for the year which fall due and which we have to pay off.

The CHAIRMAN: Are there any questions?

Agreed.

Page nine, operating budget.

Mr. GORDON: I would like to make a short statement on that.

The operating budget of the Canadian National Railways is carefully prepared and takes into consideration the latest information on current and future traffic trends. However, the figures involved are so large and the operating margin so small, that a small percentage variation in any of the revenue or expense figures can produce a considerable variation in the predicted net result.

All I am really saying is at best, this is a 'guess estimate' because it is hard to make an accurate forecast on figures of this size.

In the last half of 1958, the prolonged downtrend in traffic was halted, and a very slight upturn became evident. Our budget anticipates that this upturn will continue during 1959. Revenues, as you will see, are expected to total \$756.5 million, an increase of \$51.6 million over 1958. However, only about \$20 million of this represents an increase in volume, the remainder is a result of rates changes.

Operating expenses will rise \$28.7 million to \$728.7 million. Higher wage rates more than account for this increase. The net result for the year is expected to be a deficit of \$34.4 million, and although the figures are far from encouraging, it does represent a substantial improvement over 1958.

In short, and in summary, it can be said that a continued improvement in operating efficiency will permit us to handle the increased traffic volume for the same cost excluding wage increases. Revenues derived from the higher freight rates will be entirely offset by the new wage levels. So with that in mind, we can now examine the figures.

If there are any particular questions I will be glad to deal with them.

Mr. BROOME: I would like to ask a question. Are your operations to date in 1959 running at about this anticipated deficit rate or not?

Mr. GORDON: The last figure indicates that they will run about that. We try to forecast on the basis of current trends, and the last revision of that estimate indicates that the annual figure should be achieved.

Mr. BROOME: I am referring to the deficit. Are you carrying a \$12 million deficit now?

Mr. GORDON: It does not run that way so evenly throughout the year but we expect total revenues for five months of \$301.2 million which indicates that the annual rate should be achieved.

Mr. DRYSDALE: On the matter of the revenues I notice Mr. Crump in his annual report seemed to be worried about seaway competition. He said almost \$38 million of the Canadian Pacific Railway's traffic is exposed to this type of competition, not that it would be dropped this much. I had to read it carefully myself. I was wondering what amount of the Canadian National Railways' volume would be exposed to this competition and have you considered that in your anticipated deficit?

Mr. GORDON: We have tried to. The question of vulnerable traffic, of course, is another one of those terms that are a matter of definition. In our case we do not think that our vulnerable traffic will be that much. In our estimate we have developed a total of 1,859,000 tons that may be vulnerable to seaway competition and that total works out at roughly \$18 million of estimated revenue.

Mr. DRYSDALE: Do you anticipate any drop in revenue from the opening of the seaway?

Mr. GORDON: Yes, we do in the first instance.

Mr. DRYSDALE: How much approximately?

Mr. GORDON: What I am saying is that the total which I mentioned shows a figure of about \$18 million which we regard as vulnerable. Now, we could lose it all. We do not think we will but we do not know, we have to wait for experience to see what we have to do to compete.

Mr. DRYSDALE: The point was you mentioned yesterday that we should be interested in this deficit of the Canadian National Railways and this morning you indicated this was an educated guess?

Mr. GORDON: Yes.

Mr. DRYSDALE: I am asking you as part of your educated guess, how much you think you will lose from the seaway?

Mr. GORDON: Yes. Well, the educated guess that we have taken in there is roughly that on the basis of the vulnerable traffic we have in this figure put in about 50 per cent.

Mr. DRYSDALE: About \$9 million would go into the seaway?

Mr. GORDON: Yes.

Mr. CHEVRIER: In order to get the picture clear should not also take into consideration the likely increased traffic that might well develop?

Mr. DRYSDALE: On a long-run basis, though.

Mr. CHEVRIER: No, on a short-term basis, immediately from the seaway.

Mr. GORDON: I am not handling this question very well. I will start over again. The figure I gave of roughly \$18 million is what we regard as directly vulnerable. In addition to that there is a figure of about \$12 million which we regard as potentially vulnerable. That would bring it up to about \$30 million. We think on the \$12 million we have a pretty good chance by competitive action of retaining the bulk of that, but that remains to be seen.

At the moment we have not included any new traffic because we think the new traffic has to await the industrial development that will come from the power development. We do not see very much this year, for instance, in the way of new traffic for the railway. We believe it will come in time, but for the short run we are not considering it. Does that cover your point, Mr. Drysdale?

Mr. DRYSDALE: Yes, thank you.

Mr. FISHER: There have been a number of statements by American railroads that in answer to the seaway competition they are going to fight and fight hard. One of their means of fighting, of course, is to slash rates. Does that come into this picture at all? Will they drain off, as a consequence of fighting hard, any of the traffic that might come to Canadian National Railways?

Mr. GORDON: You mean the American railroads?

Mr. FISHER: Yes.

Mr. GORDON: We would certainly hope not and we do not see why the American railroads would get it any better than we would. What we are doing as a matter of policy is to make a very careful cost analysis of the potentially

vulnerable and the vulnerable traffic so that if we see ourselves in danger of losing it we will know what our position is with regard to the rate action. We will be able to act quickly in other words.

Mr. FISHER: Well, New York and other Atlantic seaboard points are in competition with Montreal so far as overseas shipments are concerned?

Mr. GORDON: Yes.

Mr. FISHER: If they can fight to the extent some of the American railroad presidents say they can fight, is it not conceivable that they are a threat to you?

Mr. GORDON: It is conceivable but I do not think it is likely. I do not think they would get the Canadian traffic we are interested in. They are fighting for the American traffic.

Mr. FISHER: The second question had to do with the position of Canada Steamship Lines, which is both a competitor and a generator of traffic for you?

Mr. GORDON: Yes.

Mr. FISHER: Have you made any analysis of what is going to be their position in the package freight business in the next couple of years?

Mr. GORDON: That is included in our studies of what we regard as vulnerable and potentially vulnerable. We have taken that into account.

Mr. FISHER: Is the picture a pessimistic one in so far as package freight through the lakehead is concerned?

Mr. GORDON: Losing it to the American railroads, you mean?

Mr. FISHER: Losing it to the American lakehead.

Mr. GORDON: We do not regard that with too much concern.

Mr. CREAGHAN: I was wondering if Mr. Gordon would not refresh our memories and indicate to the committee what his estimated deficit was the last time we met?

Mr. GORDON: Last year's deficit?

Mr. CREAGHAN: The estimated deficit.

Mr. GORDON: We estimated it in 1958 as \$55 million and we came in with \$51.6 million.

Mr. CREAGHAN: In operating revenue you anticipate an increase of \$52 million. How much do you estimate you will get out of this \$20 million subsidy that is in the course of being made law?

Mr. GORDON: We will not get anything. It all goes to the shipper. The railways do not benefit from the subsidy in any way. It is for the benefit of the shippers. You see, the way the subsidy is intended to operate, as I understand it—the legislation is not passed yet—but how it has been described so far is. The railway rates on certain types of traffic will be reduced and only to the extent that we are able to show a reduction on the traffic handled have we a claim on the subsidy.

Mr. CREAGHAN: But the 17 per cent rate may come down to 9 per cent or 10 per cent depending upon the percentage drop, but the money will be given by the Board of Transport Commissioners to the railways?

Mr. GORDON: Yes, but it will not change our revenue figure. I have already estimated the 17 per cent increase affect in these figures.

Mr. CREAGHAN: Yesterday you told me if you had an over-all increase in business of 7 per cent you thought you would break even?

Mr. GORDON: Yes.

Mr. CREAGHAN: And you have an increase of approximately 7 per cent in your operating revenues. I was wondering if you might in conclusion elaborate on what you mean by that 7 per cent?

Mr. GORDON: I was talking there of new traffic, increased traffic over and above the amount that we budgeted for.

The CHAIRMAN: I might suggest we are going back to yesterday's procedure.

Mr. BROOME: My question is in regard to operating expenses and I would like to ask the president as to what areas in operating expenses can you see potential savings. You have already realized most of your savings on dieselization, I suppose, except for the 20 per cent you have yet to do. What other areas have you in mind where you can make substantial savings?

Mr. GORDON: We have not as a matter of fact achieved all the economies we can see possible under dieselization. We have that portion of it which comes directly from the operation of the existing diesel locomotives but there are two other portions to come. That, of course, would include dieselization during this year, because we have some to do and it will not be until 1960 that we are completely dieselized. But in addition to the direct savings from the use of the diesels there will be collateral savings in the reorganization we are able to make in the changed operation that the use of diesels will bring or will permit. So there is a good deal of snuggling up and tidying up to do in that respect.

The other major place I see is the continued use of mechanization and using up-to-date methods in order to get the maximum productivity, so to speak, from the utilization of improved equipment.

Mr. CARTER: I want to clarify something Mr. Gordon said earlier. I understand the increased revenue of \$51 million applies—I thought he said part of it was made up of increased rates and part in increased volume. I thought he said increased volume would be 20 per cent—

Mr. GORDON: No, about \$20 million would represent the increase in volume.

Mr. CARTER: Have you the comparable percentage of volume that represents?

Mr. GORDON: Are you talking now about volume?

Mr. CARTER: Yes, volume of traffic.

Mr. GORDON: It would represent about 2.8 per cent in revenue ton miles.

Mr. CARTER: That is comparable to volume of traffic?

Mr. GORDON: Yes, it is.

Mr. CARTER: Two point eight per cent?

Mr. GORDON: Yes.

Mr. CARTER: Roughly 3 per cent?

Mr. GORDON: Yes. I omitted in my analysis for you, Mr. Broome, of savings that we expect to get, for instance, the completion of our new yards, the large

marshalling yards, in which we have about \$65 million capital in process of construction right now; and we also expect to find considerable savings out of our enlarged road program when we get it finished, and various other things like longer sidings, taking advantage of longer trains and things of that kind.

The CHAIRMAN: Any other questions?

Mr. CARTER: I was wondering, in arriving at your increased volume of traffic, do you base that on a forecast of the increase in gross national product at all?

Mr. GORDON: Yes, we have that under consideration and we also make up our estimates by checking with all the local freight traffic men across the system and they, in turn, make calls on industries and customers to get their estimate of how they foresee it. We put all those factors together and come out with an answer.

Mr. CARTER: So that you have a method of checking that would, in some sense, be a check on the increase in gross national product?

Mr. GORDON: It could be said to be that. We have our own basis for estimating increases in gross national product.

Mr. DRYSDALE: In that item in transportation that went up \$11 million in operating expenses, is there any basic cause for that increase or to what is it attributable?

Mr. GORDON: The breakdown of the \$11 million we figure would be \$10.5 million in wages.

The CHAIRMAN: Any other questions?

Carried.

We will need a motion then for the adoption of the report.

Mr. BROOME: So moved.

The CHAIRMAN: Moved by Mr. Broome, seconded by Mr. Fraser that the capital budget be approved. What is your pleasure?

Carried.

Now, we have the Canadian National (West Indies) Steamships. I suppose you have all read it. Are you ready to approve it?

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

Montreal, March 2, 1959.

The Honourable George Hees, M.P.,
Minister of Transport,
Ottawa.

Dear Sir:

On behalf of the Board of Directors, I submit herewith the Annual Report of Canadian National (West Indies) Steamships, Limited for the year ended December 31, 1958.

Yours truly,

D. S. Gordon.

ANNUAL REPORT

There were no operations of the Company's vessels during 1958. The service had been discontinued since July 1957 as a result of a strike called by the Seafarers International Union. The events which culminated in the strike began with the submission in September 1956 of demands by the S.I.U. for increases in the basic wage and overtime rates, and for certain changes in working conditions. The ensuing negotiations having failed to produce agreement, a federal conciliation officer was appointed and subsequently a Board of Conciliation and Investigation. The Board's report, issued late in March 1957, was accepted by the Company but rejected by the Union as a basis for settlement. Following the withdrawal from service of all the unlicensed personnel the Company offered a wage increase substantially higher than that recommended by the Conciliation Board. This offer was not accepted.

In May 1958, following a careful appraisal of the factors involved in a restoration of operations, Management announced, with the approval of Government, that it was abandoning the service and would dispose of the vessels by sale. The fact that the fleet had been out of service for such a lengthy period meant that long established traffic connections had been obliged to make other arrangements and the outlook for the future made it most unlikely that heavy operating losses could be avoided. Other carriers had expanded schedules and extended routings to cover the service formerly provided by the Company.

Offers for the vessels were invited through public advertisement.

The fleet of eight vessels was sold in August to the Banco Cubano del Comercio Exterior of Havana, Cuba for \$2,800,000. The agreement of sale provided for an immediate cash payment of \$560,000 with the balance payable in five equal annual instalments of \$448,000 with interest on the unpaid balance at 5% per annum. The deferred payments are secured by a letter of credit from the purchaser, confirmed by the Bank of America (International) of New York City.

The offer as accepted was not only the highest of all those received, but the only one which provided sound security for the balance of the purchase price.

Arrangements were completed during the year for the disposition of the staff of the Company. Some employees decided to retire under the Company's pension rules. Every effort was made to assist long service employees in securing other employment and a number were transferred to the Federal Department of Transport and to the Canadian National Railways.

The Balance Sheet at December 31, 1958 and the related Statement of Expenses and Statement of Capital Surplus appear on the following pages.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

BALANCE SHEET AT DECEMBER 31, 1958

ASSETS		LIABILITIES	
CASH IN BANKS		MATURED BONDS AND INTEREST COUPONS PAYABLE.....	\$ 14,025
General accounts.....	\$ 85,869	GOVERNMENT OF CANADA LOAN AND ADVANCE	
Time deposit of cash proceeds from agreement of		2½% loan repayable semi-annually, maturing Septem-	
sale of vessels.....	560,000	ber 1, 1963.....	\$2,000,000
		Less repaid.....	825,000
			<u>\$1,175,000</u>
INVESTMENTS IN SECURITIES		Working capital advance.....	150,000
Investments, at cost.....	3,066,585		<u>1,325,000</u>
(Market value at Dec. 31, 1958—\$2,779,146)		Accrued interest thereon.....	28,700
Accrued interest thereon.....	26,790		<u>1,353,700</u>
INVENTORY OF SUPPLIES, AT COST.....		SHAREHOLDERS' EQUITY	
GOVERNMENT OF CANADA		GOVERNMENT OF CANADA	
Due on deficit account.....	377,787	Capital stock authorized and issued	
		16,400 shares par value \$100 per share..	1,640,000
AGREEMENT OF SALE OF VESSELS		Less discount on capital stock issued...	40,000
Principal instalments of \$448,000 due annually 1959			<u>1,600,000</u>
to 1963.....	2,240,000	Capital surplus—per statement attached.....	3,500,910
Accrued interest thereon.....	41,118		<u>5,100,910</u>
			<u>\$6,468,635</u>
	<u>2,281,118</u>		
	<u>\$6,468,635</u>		

J. L. TOOLE,
Comptroller

AUDITORS' REPORT

To The Honourable The Minister of Transport,
Ottawa, Canada.

We have examined the books and accounts of the Canadian National (West Indies) Steamships, Limited for the year ended December 31, 1958. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

There were no operations of the Corporation's vessels during the year and in August the fleet was sold. The insurance reserve was no longer considered necessary and the assets of the insurance fund were merged with the other assets of the Corporation. Payments were made to provide for accrued pension liabilities.

In our opinion the above balance sheet and the related statement of expenses and statement of capital surplus are properly drawn up so as to give a true and fair view of the state of the Corporation's affairs at December 31, 1958 and of the transactions for the year then ended, according to the best of our information and the explanations given to us and as shown by the books of the Corporation.

We further report that in our opinion proper books of account have been kept by the Corporation and the transactions of the Corporation that have come under our notice have been within the powers of the Corporation.

We are also submitting a supplementary explanatory report.

February 24, 1959

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED
STATEMENT OF EXPENSES FOR THE YEAR ENDED DECEMBER 31, 1958

Lay-up expenses.....	\$ 750,534
Depreciation on vessels.....	174,187
Management and general expenses.....	190,005
Interest charges.....	37,228
Total Expenses (Deficit for the year).....	<u>\$1,151,954</u>

STATEMENT OF CAPITAL SURPLUS AT DECEMBER 31, 1958

Insurance investment fund—		
Transfer of insurance reserve no longer considered necessary.....		\$3,568,153
Sale of vessels—		
Excess of sale price over net book value of vessels.....	\$ 377,275	
Interest earned on time deposit and agreement of sale.....	46,376	
		<u>423,651</u>
		3,991,804
Deduct:		
Cost of pension benefits.....		<u>490,894</u>
Balance at December 31, 1958.....		<u>\$3,500,910</u>

Mr. CHEVRIER: Just a few questions I would like to ask.

Mr. McPHILLIPS: The question I was going to ask, in view of yesterday's events, how was it there was a disposition not to give out the price of these ships and to whom they were sold? Perhaps the Cubans are not deserving of that degree of consideration.

Mr. GORDON: No; the principle there was, as I explained it, all the assets of the company were being sold and that required shareholders' approval. That is the usual principle followed in that respect.

The CHAIRMAN: Any other questions?

Mr. CHEVRIER: Mr. Chairman, is it proposed now to liquidate this company and wind it up?

Mr. GORDON: Yes; subject to this. We are keeping it alive as a corporate entity because there are some claims that might still yield us something out of war claims damages, so we are still keeping it alive as a corporate entity for that purpose. There are one or two offsetting claims which we do not think are serious but might also come up, so we will keep it alive for a while.

Mr. CHEVRIER: Does that mean you will keep the organization?

Mr. GORDON: No, just a shell. There will be no staff, but we will keep the name on our books so that it has a corporate legal life.

Mr. CHEVRIER: May I ask what has happened to the officers and men and other members of the company that operated the ships? I mean, what has happened to them personally, where are they and what is the position of their superannuation or pension money?

Mr. GORDON: Well, there was a total staff of 405, we estimate, at the time of the winding up of the company. Of those, 222 were the unlicensed seamen striking personnel and they just disappeared. There were 27 men transferred to the Department of Transport in connection with their shipping activities, and they were glad to get them. There were 66 shop personnel absorbed in the Canadian National organization in various jobs. There were 14 who took advantage of pension retirements to retire earlier under those provisions. In other words, they took the option provision in the pension fund. Two of them just decided to leave of their own accord. Some elected retirement, there were 43 resignations who saw what was coming and had left us before we wound up. Of the sea-going personnel, thirty were laid off.

Mr. CHEVRIER: What happens to the pension rights that existed during the course of the lives of these people?

Mr. GORDON: They are all preserved. They are part of the Canadian National Railways pension fund. The accounting arrangement was that there was a charge made to the Canadian National (West Indies) Steamships, as such, and the Canadian National Railways pension fund took care of them.

Mr. CHEVRIER: Can you tell us where these ships are at the moment?

Mr. GORDON: I cannot, except by hearsay. I have no knowledge, as far as I know, one is in Baltimore and some in Halifax harbour. I do not state that of my own knowledge; I have not seen them. Seven in Halifax, I believe.

Mr. CHEVRIER: The sale has taken place now almost a year ago, close to a year ago.

Mr. GORDON: About last August.

Mr. CHEVRIER: And while there has been a legal transfer of the assets, there has been no physical transfer in that the ships remain where they were.

Mr. GORDON: Oh, yes, they have taken delivery of the ships.

Mr. CHEVRIER: Where, in Halifax?

Mr. GORDON: Yes.

Mr. CHEVRIER: But the ships have not been used by the purchasers, have they?

Mr. GORDON: That is their problem. They have got the ships; they have taken physical possession of them and we are completely out of it.

Mr. CHEVRIER: Can you give off-hand the terms of the purchase? I know it is a little hard. What was the down payment and has it been made?

Mr. GORDON: It is shown in the report. There was a cash payment of \$560,000 with the balance in five equal, annual payments of \$448,000 with interest on the unpaid balance of 5 per cent per annum. Those additional payments are secured by a letter of credit from the purchaser confirmed by the Bank of America of New York city.

Mr. CHEVRIER: When is the next payment?

Mr. GORDON: August.

The CHAIRMAN: Any other questions? If not, we are ready for a motion to approve the report.

Moved by Mr. Fraser and seconded by Mr. Smith.

Mr. CHEVRIER: Before you do this, I think we should consider the budget of the Canadian National (West Indies) Steamships. There is an order from the house to consider the budget of the Canadian National (West Indies) Steamships.

The CHAIRMAN: But the budget is nil. They have been sold.

Mr. CHEVRIER: It is not the budget, it is a report.

The CHAIRMAN: This is a report of a sale; there is not any budget.

Mr. CHEVRIER: I do not know whether it is nil, but you have an order from the house to consider the budget of the steamships.

Mr. HEES: But if there is nothing existing that is ordered to be produced, obviously you cannot produce it.

The CHAIRMAN: I think to be quite technical there is no budget at all.

Mr. CHEVRIER: Well, you have to make some sort of report back to the house.

The CHAIRMAN: We will do that.

Mr. CHEVRIER: This was not at my suggestion, this was at the minister's suggestion who said he would consider the budget of the steamships.

The CHAIRMAN: It has been moved by Mr. Fraser and seconded by Mr. Smith that the report be accepted. What is your pleasure?

Carried.

Mr. FISHER: We will not have this come before us any more?

The CHAIRMAN: No.

Mr. FISHER: This committee will not be getting this any more?

The CHAIRMAN: No.

Mr. FISHER: It seems like an ugly ghost.

Mr. CHEVRIER: Can we not have an answer to Mr. Fisher's question? Mr. Fisher asked what will happen in future years. Are we going to have to report each year about the present position of the accounting between the Cuban bank and the Canadian National (West Indies) Steamships. Will it be mentioned in the annual resolution that sets up the committee?

Mr. BROOME: We have twelve months to worry about that.

Mr. GORDON: We will discuss that with our legal people. I do not see that there is any need for it. It is only a matter of reporting that the payment has been received.

Mr. FISHER: It is just an "ugly ghost" of that salt water fleet we used to hear about.

The CHAIRMAN: The next order of business is the Canadian National Railways Securities Trust.

The report is on the first page.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Montreal, 20th February, 1959

The Honourable George Hees, M.P.,
Minister of Transport,
Ottawa.

Sir:

In conformity with Section 17 of The Canadian National Railways Capital Revision Act, 1952, the trustees of The Canadian National Railways Securities Trust submit the following report of the transactions for the calendar year 1958.

The Canadian National Railway Company $4\frac{1}{2}\%$ thirty year guaranteed bonds, due July 1, 1957, in the amount of \$864,000, have been released, cancelled and cremated in accordance with the authority granted under Order in Council P.C. 1957-1487 dated November 18, 1957.

The book value of the capital stock has been decreased during the year by \$7,000,000 due to capital losses of Canadian National Railways for years 1956, 1957 and 1958 arising from the early retirement of steam locomotives and the insufficiency of the related reserve for depreciation.

The trustees present herewith the balance sheet at 31st December, 1958.

D. S. GORDON,
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

BALANCE SHEET AT 31ST, DECEMBER, 1953

ASSETS		LIABILITIES	
Claims for Principal of Loans—		Capital Stock Owned by Canadian National Railway Company—5,000,000 shares of no par value capital stock:—...	
Canadian Northern Railway.....	\$ 312,334,805.10		\$ 371,518,135.02
Grand Trunk Railway.....	118,582,182.23		
Grand Trunk Pacific Railway.....	116,006,599.08		
Canadian National Railway Company	96,936,971.75		\$ 643,860,558.26
Claims for Interest on Loans—			
Canadian Northern Railway.....	\$ 309,702,897.65		
Grand Trunk Railway.....	103,250,802.95		
Grand Trunk Pacific Railway.....	107,326,622.84		
Canadian National Railway Company	54,501,313.57		574,781,637.01
Transactions of Canadian National Railway System subsequent to 1st, January, 1937, affecting the book value of the capital stock of the Securities Trust.....			101,480,697.14
Securities Held—		Amount by which the book value of claims and interest thereon exceeded the initial stated value as of 1st, January, 1937.....	
Collateral Securities—Schedule A.1.....			948,604,757.39
Other Securities —Schedule A.2.....			\$ 1,320,122,892.41

J. L. TOOLE,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended 31st, December, 1953.

The Collateral and Other Securities, as set out in Schedules A.1 and A.2 attached hereto, were verified by examination or by certificates from the depositaries.

In our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Trust's affairs at 31st, December, 1953, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1952.

Dated at Montreal,
20th, February, 1959

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST.

SCHEDULE A.1

LOANS OUTSTANDING

NOTES AND COLLATERAL HELD

Canadian Northern Railway:

3½% Loan, Chapter 6, 1911.....	\$ 2,396,099 68
4% Loan, Chapter 20, 1914.....	5,294,000 02
5% Loan, Chapter 4, 1915.....	10,000,000 00
6% Loan, Chapter 29, 1916.....	15,000,000 00
*6% Loan, Chapter 24, 1947.....	25,000,000 00
*6% Loan, Vote 110, 1918.....	25,000,000 00
*6% Loan, Vote 108, 1919.....	35,000,000 00
*6% Loan, Vote 127, 1920.....	48,611,077 00
*6% Loan, Vote 126, 1921.....	44,419,806 42
*6% Loan, Vote 136, 1922.....	42,800,000 00
6% Loan, War Measures Act, 1918.....	1,887,821 16
*6% Equipment Loan, Chapter 38, 1918.....	56,926,000 82
* Mortgage covering loans above.....	

Total Canadian Northern..... \$ 312,334,805 10

Grand Trunk Railway:

6% Loan, Vote 478, 1920.....	\$ 25,000,000 00
6% Loan, Vote 126, 1921.....	55,293,435 18
6% Loan, Vote 137, 1922.....	23,288,747 15
4% Loan to G.T. Pacific Chapter 23, 1913, guaranteed by Grand Trunk.....	15,000,000 00

Total Grand Trunk..... \$ 118,582,182 33

Grand Trunk Pacific Railway:

3% Bonds Chapter 24, 1913.....	\$ 33,048,000 00
6% Loan, Chapter 4, 1915.....	6,000,000 00
6% Loan, Vote 441, 1916.....	7,081,783 45
6% Loan, Vote 444, 1917.....	5,038,053 72
6% Loan, Vote 110, 1918.....	7,471,399 93

Receiver's Advances, P.C. 635, March 26, 1919.....	45,764,162 35
Interest guaranteed by Govt. of Canada.....	8,704,662 65
Interest guaranteed by Provinces of Alberta and Saskatchewan.....	2,898,536 98
Total Grand Trunk Pacific.....	\$ 116,006,599 08

None. Charge is on premises mortgaged October 4, 1911.....	
None.....	
None.....	
Mortgages dated June 23 and June 26, 1916.....	
6% Demand Notes.....	\$33,012,414 32
6% Demand Notes.....	27,203,003 65
6% Demand Notes.....	40,031,122 27
6% Demand Notes.....	53,008,779 65
6% Demand Notes.....	50,259,312 47
6% Demand Notes.....	46,691,634 60
6% Demand Notes.....	5,700,000 00
3½% Debenture Stocks.....	5,109,999 99
6% Demand Notes.....	56,888,496 44
Mortgage dated November 16, 1917.....	

6% Demand Notes.....	\$25,479,226 97
6% Demand Notes.....	56,646,816 12
6% Demand Notes.....	23,288,747 15
4% Demand Notes.....	15,000,000 00
4% G.T.P. Debentures.....	15,000,000 00

3% 1st. Mortgage Bonds.....	\$33,048,000 00
4% Sterling Bonds.....	7,499,952 00
Mortgage, June 28, 1916.....	
Mortgage, October 18, 1917.....	
Mortgage, October 18, 1917.....	
Receiver's Certificates.....	53,339,162 74
Cremation Certificates, coupons destroyed.....	8,698,170 42
Cremation Certificates, coupons destroyed.....	2,925,734 83

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

SCHEDULE A.1—Concluded

LOANS OUTSTANDING		NOTES AND COLLATERAL HELD	
Canadian National Railway Company:		{ 6% Canadian Northern Demand Note.....	\$12,655,019.57
6% Loan, Vote 139, 1923.....	\$ 24,550,000.00	{ G.T.P. Receiver's Certificates.....	3,313,530.01
		{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,831.96
5% Loan, Vote 137, 1924.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	1,318,315.86
		{ G.T.P. Receiver's Certificates.....	4,691,173.58
		{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,822.24
5% Loan, Vote 377, 1925.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	9,496,718.21
		{ G.T.P. Receiver's Certificates.....	1,422,425.17
		{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,802.80
5% Loan, Vote 372, 1926.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	9,062,624.30
		{ G.T.P. Receiver's Certificates.....	364,898.78
5% Loan, Vote 336, 1929.....	2,932,652.91	{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,880.56
5% and 5½% Loans, Chapter 22, 1931.....	29,910,400.85	{ 5% Canadian National Railway Company Demand Notes.....	2,932,652.91
5½% Loans, Chapter 6, 1932.....	11,210,815.56	{ 5½% Canadian National Railway Company Demand Notes.....	29,910,400.85
Less: adjustment authorized by the Capital Revision Act, 1937.....	Cr.		11,210,815.56
Total Canadian National Railway Company ..	\$ 96,936,971.75		
Total Loans.....	\$ 643,860,558.26		

SCHEDULE A.2

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
SECURITIES TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST PURSUANT TO THE PROVISIONS OF THE CANADIAN NATIONAL RAILWAYS CAPITAL REVISION ACT, 1952

Description of Issue	Amount	
	Sterling Currency	Dollar Currency
Canadian Northern Alberta Rly. Co. 3½% First Mortgage Debenture Stock, due May 4, 1960.....	£ 534,097	
Canadian Northern Ontario Rly. Co. 3½% First Mortgage Debenture Stock, due May 19, 1961.....	6,294,345	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due May 19, 1961.....	359,869	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958.....		\$ 508,666.00
Grand Trunk Pacific Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958.....		
Grand Trunk Pacific Rly. Co. 3½% First Mortgage Sterling Bonds, due Jan. 1, 1962.....	1,754,500	
Grand Trunk Western Rly. Co. 4% Sterling Bonds, due Jan. 1, 1962.....	90,900	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950.....	649,500	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950.....		1,293,500.00

Mr. DRYSDALE: We have not any reports on that.

Mr. McPHILLIPS: Oh yes, we have.

Mr. GORDON: It is a purely formal matter.

The CHAIRMAN: It has been moved by Mr. Broome and seconded by Mr. Fraser that we adopt this report; what is your pleasure, gentlemen?

Carried.

The CHAIRMAN: Now, the next item of business is the auditors' report. I will call witnesses from George A. Touche and Company. We have remaining still the auditors' report and items 410, 411 and 419 of the main estimates.

We have Mr. Howard T. Ross and Mr. J. W. Beech with us; they represent George A. Touche and Company.

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS

410 St. Nicholas Street
Montreal

February 24, 1959.

THE HONOURABLE,
THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir:

As auditors of the Canadian National Railway System for the year 1958, we submit this report to Parliament through you.

1. Financial Statements for 1958

Included in the annual report of the System, with the usual financial statements, is a report from us in which we state that we have examined the accounts of the System for the year 1958 and that in our opinion the consolidated balance sheet and income statement are properly drawn up so as to give a true and fair view of the state of the System's affairs for 1958, subject to a reservation with regard to depreciation accruing prior to the adoption of depreciation accounting as explained in Note 1 included with the statements. We add our opinion that the statements are prepared on a basis consistent with that of the preceding year except for the reversal of supplementary depreciation provided in 1957 and the capital losses charged to shareholders' equity as referred to in Note 1 to the financial statements.

In our report on the financial statements we also state that in our opinion proper books of account have been kept by the System and that the transactions coming under our notice have been within the powers of the System.

2. Results of Operations for 1958

The financial statements for 1958 indicate a deficit of \$51.6 million which is the highest reported deficit since 1938. As explained in the notes to the financial statements, on the suggestion of the Minister of Finance a different policy was adopted with respect to obsolescence of steam locomotives. This involved the reversal of a special provision of \$7.5 million which had been set up in the previous year; and a special charge of \$7 million to shareholders' equity in respect to the disposal of steam locomotives. If the reported profits for the years 1957 and 1958 had been restated to give effect to this adjustment for comparative purposes, the deficits would have been—1957—\$22.1 million; 1958—\$59.1 million.

3. Analysis of Deficit

The large deficit for 1958 can be attributed to three causes—

- (a) freight ton miles, which reached a peak in 1956, declined in 1957 and again in 1958; and freight provides approximately 80% of the System's revenue,
- (b) periods of rising costs create problems for all industries and particularly for those which cannot raise prices rapidly, and
- (c) fixed charges of the System have mounted rapidly.

The reasons for the decrease in freight volume and for rising costs have frequently been discussed and we have no comments to add as auditors, but it might be useful if we called attention to the problems raised by increasing fixed charges.

4. Fixed Charges

It is worth noticing that since 1952, when a capital reorganization went into effect, the fixed charges of the System have increased in the following manner—

<i>Year</i>	<i>Millions</i>
1952	\$25.4
1953	29.4
1954	32.5
1955	33.0
1956	31.8
1957	37.0
1958	46.5

It will be observed that during this period, fixed charges have come close to doubling and there was a particularly marked increase in the years 1957 and 1958, fixed charges going up \$5.2 million in 1957 and \$9.5 million in 1958.

The large increase in 1958 was the result of a number of factors, including new borrowings during the year, the refinancing at a higher interest rate of prior year loans, and the full effect in 1958 of borrowings during 1957 which only had a partial effect in that year.

5. Summary of Finances 1952-1958

To understand the heavy increase in fixed charges as set out above, it is necessary to review transactions since January 1, 1952—when the Capital Revision Act came into effect. The funds required since that date and the sources from which they were obtained may be summarized as follows—

<i>Funds required</i>	<i>Millions</i>
Additions to property (net)	\$1,063.1
Increased working capital, etc.	45.3
	<hr/>
	\$1,108.4
	<hr/>

Sources of funds

Subscriptions to preferred stock by the Government	\$145.9	
Increase in investment in the Canadian Government Railways	52.9	
Reduction in no par value capital stock ..	(7.0)	\$ 191.8
Increase in depreciation		197.7
Loans and debentures —		
from the Government	\$306.8	
from the public	412.1	718.9
		<u>\$1,108.4</u>

It might be explained that while there was a net deficit on operations during the period, this is not shown in the foregoing summary since deficits, in years in which there were deficits, were recovered from the Government, while surpluses were turned over to the Government in the form of preferred dividends.

In the foregoing financial summary, the most striking feature is perhaps the net additions to property of \$1,063.1 million. This reflects the heavy capital expenditures required to catch up on improvements deferred during depression and war years and also to keep up with the important technological developments that occurred in railroading during the period.

6. Debt-Equity Position

Of the heavy capital requirements during this period, \$197.7 million was provided through accumulated depreciation and the balance came from borrowings (\$718.9 million) and equity financing (\$191.8 million). The relatively greater reliance on borrowing has the effect of altering the ratio between the debt and equity of the System. This may be clearly seen from the following figures—

<i>Balance at</i>	<i>Equity</i>	<i>Borrowed</i>	<i>Total</i>	<i>Percentage Equity</i>
January 1, 1952	\$1,613.6	\$615.1	\$2,228.7	72.4
December 31, 1952 ...	1,631.9	712.2	2,344.1	69.6
December 31, 1953 ...	1,652.9	810.6	2,463.5	67.1
December 31, 1954 ...	1,672.2	968.4	2,640.6	63.3
December 31, 1955 ...	1,692.7	966.0	2,658.7	63.7
December 31, 1956 ...	1,717.1	1,026.9	2,744.0	62.6
December 31, 1957 ...	1,740.3	1,219.0	2,959.3	58.8
December 31, 1958 ...	1,805.4	1,334.0	3,139.4	57.5

Funds were obtained to the extent of 79% from borrowings and 21% from equity financing. As a result, the percentage of equity dropped from 72.4% to 57.5% during these years. It is estimated that the equity percentage will be down to 55.5% by the end of this year.

In the figures submitted above, we have eliminated the financing of the investment in Trans-Canada Air Lines as this may, in our opinion, best be considered as a separate matter. We have also treated \$117 million of interest-free debt as part of the equity of the System, as this is logical for our present purpose of studying the relationship of fixed charges to the debt-equity ratio.

7. *Future Financing*

From the figures submitted above, it can be seen that the change in the debt-equity ratio has been occasioned by the fact that the heavy capital expenditure program of the System since 1952 has been financed more by borrowings than by contributions to equity.

Capital expenditures are made with the intention that they will increase earnings and thus cover the interest charges necessary to finance them. However, earnings produced by such expenditures are not ear-marked for the payment of fixed charges. Such earnings enter the general funds of the System and have tended to become adsorbed by increases in operating costs.

In the light of the foregoing analysis, it would appear that there would be merit in keeping the debt-equity relationship in line, as this would be one way of preventing the accumulation of an unreasonable burden in fixed interest charges. It would not be very difficult to work out a formula under which this would be accomplished automatically. One obvious way this could be done would be by providing that when the capital expenditure budget is approved by the Government, it is financed partly by interest-bearing loans and partly by subscriptions to non-cumulative preferred stock—the proportion being worked out each year so as to keep debt and equity at some agreed ratio.

This aspect of the earning ability of the property is however but one factor in a wide complex of questions involving national policy on such matters as freight rates, competition, subsidies, etc., as well as managerial action taken to meet technological and other changes in the railway industry. Consequently our comment can involve no recommendation but expresses a view that the subject of the steadily growing burden of fixed charges will need to be considered when the C.N.R. Capital Revision Act comes up for review on the expiry of the periods referred to in Sections 4 and 6 of the Act.

8. *Accounting Operations*

In the course of our work we have met with the fullest cooperation from all officers and staff of the System. Our contacts are principally with the accounting departments and we think we should report that we have the greatest respect for the work that is being done by them. These are days of rapid changes in accounting methods and we believe that the accounting officers of the System are coping with the tremendous problems of keeping up to date in a most capable manner.

Yours faithfully,

George A. Touche & Co.

GEORGE A. TOUCHE & CO.
Chartered Accountants
410 St. NICHOLAS STREET
MONTREAL

MONTREAL, TORONTO, LONDON, WINNIPEG,
REGINA, SASKATOON, EDMONTON, CALGARY,
VANCOUVER, VICTORIA

REPRESENTED IN THE
UNITED STATES OF AMERICA AND GREAT BRITAIN

February 24, 1959.

THE HONOURABLE,
THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir:

As auditors of Canadian National (West Indies) Steamships. Limited for the year 1958, we submit this report to Parliament through you.

1. *Financial Statement for 1958*

Included in the annual report of the Corporation, with the financial statements, is a report from us in which we state that we have examined the accounts of the Corporation for the year 1958 and that in our opinion the statements are properly drawn up so as to give a true and fair view of the state of the Corporation's affairs for 1958. We also report that in our opinion proper books of account have been kept by the Corporation and that the transactions coming under our notice have been within the powers of the Corporation.

2. *Investments in Securities*

These consist of Government of Canada bonds and similar securities. Based on market quotations at December 3, 1958, the value of these securities was less than their cost by approximately \$287,000 or 9%.

3. *Inventory of Supplies*

The materials and supplies remaining on hand after the sale of the vessels are being held pending disposal at satisfactory terms.

4. *Proceeds From Sale of Vessels*

The fleet of eight vessels was sold in August for a principal sum of \$2,800,000, of which \$560,000 was paid upon the transfer of the ships. The balance is payable in five equal annual instalments of \$448,000, although the purchaser has the right at any time, to liquidate the balance outstanding. Interest accrues on the unpaid principal at the rate of 5% per annum. The Corporation holds an irrevocable letter of credit issued by the purchaser and confirmed by the Bank of America.

5. *Capital Surplus*

The transactions of the Corporation relating to the termination of operations and the sale of the fleet were considered to be of a special nature and have been recorded in a separate account. The net balance of this account amounting to a credit of \$3,500,910 at December 31, 1958, has been shown as part of the shareholders' equity on the balance sheet. The transactions reflected in this balance are detailed in the statement of capital surplus.

6. *Statement of Expenses*

Lay-up expenses, consisting of officers' wages, port and shore expenses, insurance, fuel, provisions, and other supplies, were incurred prior to the date of the sale in order to maintain the vessels on a basis which would permit the resumption of services upon short notice. These expenses were greater than similar costs in 1957 because of the longer period of inactivity of the vessels.

The depreciation provision covers the period up to the date of the sale of the vessels.

Management and general expenses were less than those of the previous year as a result of the gradual elimination of such expenses following the termination of operations.

The deficit for the year amounted to \$1,151,954 of which at December 31, \$774,167 had been recovered from the Government of Canada and the balance of \$377,787 appears as an amount receivable on the balance sheet.

7. *War Claims*

In 1942 the S.S. "Lady Drake" and S.S. "Lady Hawkins" were sunk by enemy action. Claims were made with the War Claims Commission and ultimately upheld in a total amount of \$499,197. At December 31, 1958, recoveries in the amount of \$98,264 had been received, leaving a balance outstanding of \$400,933. Future payments on these claims will depend on the adequacy of the War Claims Fund. No information is available of how much will ultimately be recovered, and therefore no amount has been set up in the assets of the Corporation.

8. *General*

At December 31, 1958, there remained a few unsettled damage claims resulting from accidents involving the ships and claims respecting contract and the carriage of cargo. In view of the uncertainty of the amounts involved no provision has been made in the Corporation's accounts for the final settlement of these claims.

We express our appreciation of the excellent co-operation and assistance received from officers and employees of the Corporation during our audit.

Yours faithfully,

GEORGE A. TOUCHE & CO.

Mr. FRASER: All I think we need to find out from these gentlemen is whether or not this report is absolutely all right.

Mr. CATHERS: It states so.

Mr. CHEVRIER: Mr. Chairman, I have one question to ask in connection with fixed charges. There has been a tremendous increase in the fixed charges over the last six years, according to page 4 of the report, and particularly in the last two years. Judging from what Mr. Gordon said, it is almost \$20 million in twenty years. Is there anything you can add to what Mr. Gordon has said in connection with the increases in the fixed charges?

Mr. HOWARD ROSS (*George A. Touche & Company*): I do not think so, Mr. Chevrier. There is a statement on page 5 in which we tried to summarize the requirements for funds over the last few years—since 1952. I think from that it is pretty obvious that fixed charges have gone up because your capital expenditures have been so heavy during that period and most of them have been financed by additional borrowings.

Mr. CHEVRIER: You have done the accounting for 1958?

Mr. ROSS: Yes.

Mr. CHEVRIER: And you will not be doing it for 1959?

Mr. ROSS: No, sir.

Mr. CHEVRIER: Who is going to be the accountant for 1959?

Mr. ROSS: Mr. James A. de Lalanne.

Mr. CHEVRIER: I see the minister smiles very graciously. Will his appointment begin as of January 1, 1959?

Mr. HEES: Yes.

Mr. CHEVRIER: What is the name of the firm?

Mr. HEES: The audit is in the name of the individual.

Mr. CHEVRIER: I would like the name of the firm who will audit the books of the Canadian National Railways.

Mr. HEES: The audit does not have to be done in the name of a firm; it can be done in the name of an individual.

Mr. CHEVRIER: And in this case it is an individual?

Mr. HEES: Yes.

Mr. CHEVRIER: I have another question in which I am sure the committee would be interested. Is the individual who is auditing the books of the Canadian National Railways for the year 1959 a defeated candidate in one of the Montreal ridings?

Mr. HEES: I would not know.

The CHAIRMAN: We are dealing with this auditors report.

Mr. CHEVRIER: I think we are entitled to know who is going to audit the books next year.

Mr. McPHILLIPS: You can ask that question in the house.

The CHAIRMAN: I do not know that you are free to ask that question here.

Mr. BROOME: I wonder if Mr. Chevrier read the editorial in last night's Journal?

Mr. CHEVRIER: No, but I would be glad to see it.

Mr. DRYSDALE: In connection with item 6, I notice there is some criticism by the auditor in regard to the very heavy capital requirements. In connection with the ratio, I was wondering what he would suggest would be a desirable ratio.

Mr. ROSS: This is not particularly criticism; it is an explanation of how the fixed charges have increased. So far as I know, from our experience in inquiring around, there is no particular formula whereby you could say this should be a certain percentage.

Mr. DRYSDALE: Have you the C.P.R. ratio?

Mr. ROSS: No.

Mr. DRYSDALE: You have no idea as to what would be a reasonable percentage?

Mr. ROSS: The C.P.R. have the problem of retained earnings, which does not apply in the case of the C.N.R.; it makes a difference.

Mr. DRYSDALE: You have no idea as to what would be a desirable percentage equity?

Mr. ROSS: I do not think there is any recognized ratio.

Moved by Mr. Martini and seconded by Mr. Fraser that the auditor's report be adopted.

Now, gentlemen, we have items 410, 411 and 419 of the estimates.

RAILWAY AND STEAMSHIP SERVICES

410 Prince Edward Island Car Ferry and Terminals	515	\$1,741,000
411 Newfoundland Ferry and Terminals	516	4,738,000
419 Maritime Freight Rates Act—Payment to the Railway Companies operating in the select territory designated by the Act, of the difference occurring on account of the application of the Act, between the tariff tolls and normal tolls under approved tariffs (estimated and certified to the Minister of Transport by the Canadian National Railway Company and approved by auditors of the said Company respecting the Eastern Lines of the Canadian National Railways and in the case of the Other Railways by the Board of Transport Commissioners for Canada) on all traffic moved during the calendar year 1959	518	14,100,000

Mr. CHEVRIER: Would you please tell us what they are?

Mr. HEES: Item 410 is under "railway and steamship services" and concerns the Prince Edward Island car ferry and terminals. It shows a deficit for 1959.

Mr. CHEVRIER: How much of a deficit?

Mr. HEES: It is set out at page 73 of the blue book and the details will be found on page 515.

Mr. CHEVRIER: How much?

Mr. HEES: This year the deficit is \$1,741,000. The year before it was \$1,968,128 and in 1957 it was \$2,008,156.

Mr. McPHILLIPS: On a point of clarification, are these services operated by the Department of Transport?

Mr. HEES: They are operated by the Canadian National Railways for the Department of Transport.

Mr. McPHILLIPS: Is that because it is a condition of confederation?

Mr. HEES: Not the Prince Edward Island car ferry, no; the next item is.

Mr. McPHILLIPS: If it is a straight C.N.R. operation, how does it get into our estimates?

Mr. HEES: Some time back it was decided the C.N.R. should operate it for the department; just how and why, I do not know.

Mr. CHEVRIER: I believe it was because it was costing the Department of Transport too much money. It was thought the Canadian National Railways could do a better job.

Mr. HEES: I think it could.

The CHAIRMAN: That is the first compliment you have had, Mr. Gordon.

Mr. GORDON: That is why I am speechless.

Mr. FISHER: I wanted to ask if there are any negotiations under way to purchase for the Prince Edward Island service the vacationland ferry which has been used on the Mackinac straits.

Mr. HEES: We have looked into the possibility of using that ferry. However, it would have to be modified, and the docks would have to be modified. It would take the best part of the remaining season to do that and it would not be of any use this year. It would cost a considerable amount of money. But we are looking around to see if we can find another ship which we can loan or buy as an additional standby ferry for this year's operations. As Mr. Gordon said the other day, the C.N.R. are placing additional planking on the decks of the *Scotia II*, which will make it possible to carry sixty cars more a trip than a year ago. This will help considerably in relieving the pressure.

Mr. FISHER: Is there general recognition by the government and the railway that this service has been a bad one, quite a poor one, and they are making definite attempts to improve it?

Mr. HEES: I do not think we would say it is a bad one. It is a service where there is considerable traffic and we, together with the C.N.R., have tried to make it a good service.

Mr. CHEVRIER: Is not the *Abegweit* a pretty good car ferry?

Mr. HEES: Yes, it is. The *Prince Edward Island* is too, and also the *Scotia II*. They do a good job. We are trying to improve it. This is typical of the C.N.R. and the Department of Transport.

Mr. McPHILLIPS: Who is here to tell us why this large deficit was incurred?

Mr. HORNER (*Jasper-Edson*): How much traffic was carried on this particular boat?

Mr. GORDON: Which one are you speaking of?

The CHAIRMAN: Item 410, the Prince Edward Island ferry.

Mr. McPHILLIPS: I have not had an answer to my question.

Mr. HEES: You will notice the deficit has been steadily coming down in the last three years.

Mr. GORDON: The deficit represents the difference between the cost of operating the ferry as such and the portion of the revenue which is credited to that operation. So it is obvious that we cannot possibly overtake the gross operating expenses.

Mr. McPHILLIPS: It boils down to lack of traffic.

Mr. HEES: No, I would not say that, because the existing ships are fully occupied. The cost of the ships is too great in relation to the earning capacity of that traffic, and you will always have a deficit. It is the cost of providing services to Prince Edward Island and carries out the general commitment of confederation in that respect.

Mr. HORNER (*Jasper-Edson*): How much traffic is carried?

The CHAIRMAN: It is carrying the full capacity.

Mr. HORNER (*Jasper-Edson*): How many is that?

Mr. GORDON: I can give you the traffic here in terms of the basic particulars. In 1958 there were 23,362 trucks and buses carried and 118,638 automobiles; for freight car traffic the figure is 54,983 and there were 3,954 rail passenger cars.

Mr. DRYSDALE: Do you have the operating revenues and expenses handy?

Mr. GORDON: The operating revenue for 1958 was \$682,857 and the total operating expenses were \$2,650,985.

Mr. CREAGHAN: Does the C.N.R. pay a fee to the Department of Transport for each and every boxcar or unit of your own equipment?

Mr. GORDON: I do not think that is so. There is no fixed management fee. Incidentally, this is similar to the subsidies and I suppose you will come to them with respect to the provision in regard to Newfoundland. It is considered a continuous land operation. It is intended to put the traffic on Prince Edward Island on the basis of shipper to consumer as though the strait did not exist.

Mr. HORNER (*Jasper-Edson*): It is in fact a subsidy to Prince Edward Island.

Mr. GORDON: Yes.

Item 410 agreed to.

The CHAIRMAN: Item 411—Newfoundland ferry and terminals, is next.

Mr. HEES: This item deals with the deficit for the Port aux Basques ferry. The deficit for the past year was \$4,738,000 as compared to a deficit in 1958 of \$5,770,651. The deficit in 1957 was \$5,978,398. Again, you will see the deficit has been slowly decreasing.

Mr. DRYSDALE: What was the situation of the ferry before confederation? How was it operated? Was it by the British?

Mr. HEES: This is in terms of confederation, 1949.

Mr. GORDON: The cross-over before confederation was operated by the Newfoundland government; they provided the shipping at that time.

Mr. DRYSDALE: What was the deficit again?

Mr. HEES: For the last year \$4,738,000; the year before it was \$5,770,651, and the year before that \$5,978,398.

Mr. DRYSDALE: You have not the total deficits since confederation?

Mr. HEES: No.

Mr. McPHILLIPS: Is the vessel *William Carson* owned by the Department of Transport or the C.N.R.?

Mr. HEES: It is owned by the Department of Transport and operated by the C.N.R. for us.

Mr. BROOME: I would like to ask a question; it may not be too pertinent, but I think it is. Is the subsidy authorized for Newfoundland and Prince Edward Island because it is a matter of public interest to provide transportation.

Mr. HEES: Yes.

Mr. BROOME: Why does that not apply to ferries linking Vancouver and Vancouver island?

Mr. CHEVRIER: Because there is a commitment in the terms of union with Newfoundland and there is not with British Columbia.

Mr. McPHILLIPS: Oh yes, there was.

Mr. CHEVRIER: Let us see it. I have been told that quite often but I have never seen it.

The CHAIRMAN: I hope we are not going to open up again the question of confederation.

Mr. HEES: Have you such terms of confederation in British Columbia?

Mr. BROOME: There was supposed to be transportation linkages to the rest of Canada and since Vancouver island is part of British Columbia, it should be included in that.

Mr. HEES: I do not know of any such terms.

Mr. FISHER: Your department has no intention of going back on this particular term of union?

Mr. HEES: No, or any other term of union.

Item 411 agreed to.

The CHAIRMAN: Item 419 is next. It concerns the Maritime Freight Rates Act.

Item 419 agreed to.

The CHAIRMAN: Thank you, gentlemen, for passing the Canadian National Railways annual report and these other reports. Mr. Gordon, I think I can say on behalf of the committee that we appreciate your courtesy and almost tireless effort in giving all these details. I know the committee appreciate very much the services which you and your staff have rendered.

Mr. FISHER: We received a suggestion yesterday from Mr. Gordon and I think we are all thinking very seriously of a reconsideration of the methods and procedures of the committee in so far as this particular item is concerned. I do not think we should rush into it. Mr. Gordon may find that the statement he made yesterday does not set out all the details. I wonder if he would be prepared to send a written statement or memorandum of his suggestions with regard to the matter.

Mr. GORDON: Yes, I would be glad to say a word on this. I will be very happy indeed to make my views perhaps more coherent in a written form. But I would like to emphasize that I am doing so at the request of the committee. I noticed in some of the newspaper reports this morning that, while it was quite accurately reported, it could leave the impression I had become a little belligerent or forthright. I make this suggestion because I take it the Committee itself is interested in trying to arrive at a procedure which is most useful and more helpful in terms of its examination.

The CHAIRMAN: I think your statement came as a result of a question asked by Mr. Fisher. The wrong impression must not go out. Mr. Gordon made it very clear yesterday, and I have thought about it two or three times during the night. It was not a gratis proposal made by Mr. Gordon; he was asked for his views and he gave them. I do not think the wrong impression should go out; that is, that the president is going to set the terms of reference.

Mr. FISHER: As a result of general agreement we asked him if he would do this.

The CHAIRMAN: I think the committee would approve of his putting it in letter form.

Mr. CHEVRIER: If it were put in a letter form or in the form of a memorandum to you as chairman, then perhaps we could acquire copies of it before the report of the committee is set up. In that way we could consider it, and we may find it advisable to include it as one of the recommendations to parliament. It certainly is a suggestion to which we should give careful consideration. I am sure all of us agree that Mr. Gordon would not have made this suggestion or statement if it had not been at the request of one or other of the members of this committee.

The CHAIRMAN: I think it is a matter we can consider.

Mr. FISHER: Could I ask the chairman if we could postpone consideration of this particular feature of the committee's work until after we get the printed transcript because I, for one, would appreciate the change to go through and block off the extraneous material from what may be of continuing value.

Mr. CHEVRIER: I think you are bound to make a report on the affairs of the Canadian National Railways almost at once, but it could be an interim report to meet Mr. Fisher's suggestion, and we could consider it as a second or third, or a further report.

The CHAIRMAN: Unless the report came back very quickly, that is the only way we could do it.

Mr. FISHER: I think it is a serious topic and I do not think we should dash at it and throw something into the house.

The CHAIRMAN: It is going to be rather difficult to have the usual examination without restricting it, as it were. This is a question to which we would have to give a lot of thought before we proposed to parliament that in future we are going to examine the management of the C.N.R., as suggested. Some of you thought we were restricting it too much anyway. Perhaps the latitude will not be as great. Mr. Fisher shakes his head; he does not want it too restricted.

Mr. FISHER: I want to see some restrictions. I think the objections were to all these shouts of "carried—carried".

The CHAIRMAN: I would like to see some restriction so we could get some of these items carried more quickly than we do, and not have so many questions that do not relate. That is the type of restriction I would like to see. I would like to see the committee examine in a businesslike way and the C.N.R. examined as a business company who has to meet competition with the C.P.R. As I said yesterday I think it is a difficult thing for one company to be in competition with another company and be "blasted" across the country in different ways, and examined in a way in which the other competitive company does not have to be subjected. I think it should be conducted in a more businesslike way.

If Mr. Gordon sends his brief, as was suggested, I would be glad to cooperate in every way, and we will deal with it. We may not necessarily accept all of it, but I feel with his broad experience, not only as president of the C.N.R. but as a businessman, that we should give his suggestions very serious consideration. I think we can come up with something that will be new, effective and serve the purpose which our committee is intended to serve. I think it is very difficult when the committee carries on like it has been, enlarging on a particular point and going into other phases of operation. Perhaps we can improve it, and maybe we cannot; but we will try.

Mr. CHEVRIER: I do not think we should conclude, Mr. Chairman, without reiterating your views and suggestions to the president of a moment ago, of how much we appreciate the manner in which he has come forward with the evidence, and the work he and his associates have done in order to give this information to the committee.

The CHAIRMAN: Yes. I think, Mr. Gordon, that you can accept that from all the members of the committee.

Mr. GORDON: Thank you very much, gentlemen. I would like to make one comment at this time in connection with your report. It is important that it be advanced in such a way that the Financing and Guarantee Act legislation is not delayed. The minister knows how important it is for that to get through now. I would hope you would be able to get an interim report that would allow the legislation to go forward because a delay would be rather serious.

Mr. CHEVRIER: It was my suggestion a while ago that we do that at once and consider Mr. Fisher's suggestion at a later date.

The CHAIRMAN: What do you consider "at once", the beginning of the week?

Mr. CHEVRIER: When we have completed our work with the C.N.R. and the T.C.A.

The CHAIRMAN: As soon as we can.

Mr. CHEVRIER: Yes.

The CHAIRMAN: Well, if you would expedite the T.C.A. a little more rapidly than this one, we may be able to oblige.

Mr. SMITH (*Simcoe North*): Mr. Chevrier could assist by bringing it on right now.

The CHAIRMAN: Now, gentlemen, I see Mr. Gordon McGregor and his staff here. We had suggested—we were a little optimistic, Mr. McGregor, last night—that we might get at the T.C.A. at 10:30. That is what we had been aiming at but I think maybe we had better let it go now until following orders of the day, unless you want to start. There is only about fifteen minutes. We are supposed to be at the front of the building at 11:30.

Mr. CHEVRIER: What is the hour of departure at the latest?

The CHAIRMAN: 11:30. Is it your wish then that we start this immediately following the orders of the day?

Agreed.

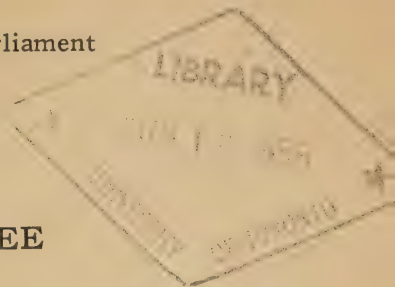
Note: Afternoon meeting devoted to T.C.A. See Issue No. 3.

Canada. Railways, Air Lines and Shipping
Sessional Committee on, 1958

(HOUSE OF COMMONS

First Session—Twenty-fourth Parliament

1958



SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

including

REPORTS TO THE HOUSE

TUESDAY, July 15, 1958

Trans-Canada Air Lines Annual Report (1957) and Budget (1958);
Auditors' Report to Parliament of George A. Touche & Company (1957).

WITNESSES:

Mr. G. R. McGregor, Mr. W. S. Harvey, Mr. H. W. Seagrim, Mr. S. W. Sadler of Trans-Canada Air Lines and Mr. J. A. Wilson and Mr. J. W. Beech of George A. Touche & Company.

(Proceedings relating to the Canadian National Railways appear in Issue No. 1.)

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1958

SESSIONAL COMMITTEE
ON
RAILWAYS, AIR LINES AND SHIPPING
Owned and Controlled by the Government

Chairman: Hon. W. Earl Rowe

Vice-Chairman: Mr. Yvon R. Tassé

Messrs.

Bourbonnais,
Brassard (*Lapointe*),
Broome,
Carter,
Chevrier,
Chown,
Creaghan,
Drysdale,
Fisher,

Fraser,
Grills,
Gundlock,
Hardie,
Kennedy,
Loiselle,
Martini,
Mitchell,
Monteith (*Verdun*),

Pascoe,
Robichaud,
Robinson,
Rowe,
Rynard,
Smith (*Calgary South*),
Smith (*Simcoe North*),
Tassé—26.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
WEDNESDAY, July 9, 1958.

Resolved,—That a Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time and that, notwithstanding Standing Order 67 in relation to the limitation of the number of members, the said Committee to consist of Messrs. Bourbonnais, Brassard (*Lapointe*), Broome, Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Grills, Gundlock, Hardie, Kennedy, Loiselle, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robichaud, Robinson, Rowe, Rynard, Smith (*Calgary South*), Smith (*Simcoe North*), and Tasse.

WEDNESDAY, July 9, 1958.

Ordered,—That the Annual Reports for 1957 of the Canadian National Railways; Canadian National (West Indies) Steamships Limited; Canadian National Railways Securities Trust; Auditor's Report to Parliament in respect of the Canadian National Railways and Canadian National (West Indies) Steamships for the year 1957, tabled on May 22, 1958; the budget for 1958 of the Canadian National Railways tabled on June 2, 1958; the Annual Report of Trans-Canada Air Lines for 1957; the Auditors' Report to Parliament on Trans-Canada Air Lines for the year 1957, tabled on May 23, 1958, and the budget for 1958 of Trans-Canada Air Lines, tabled on January 31, 1958, be referred to the Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government, and that items numbered 431—Prince Edward Island Car Ferry and Terminals; 432—Newfoundland Ferry and Terminals; 442—Maritime Freight Rates Act; 443—Canadian National (West Indies) Steamships Limited as listed in the Main Estimates 1958-59, and item 635—Canadian National (West Indies) Steamships Limited as listed in the Supplementary Estimates 1958-59, be withdrawn from the Committee of Supply and referred to the said Committee, saving always the powers of the Committee of Supply in relation to the voting of public moneys.

FRIDAY, July 11, 1958.

Ordered,—That the quorum of the Sessional Committee on Railways, Air Lines and Shipping be set at 10 Members.

Ordered,—That the said Committee be empowered to sit while the House is sitting.

Ordered,—That the said Committee be authorized to print, from day to day, 1000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence and that Standing Order 66 be suspended in relation thereto.

MONDAY, July 14, 1958.

Ordered,—That the revised Budget for 1958 of the Canadian National Railways and the operating budget of the Canadian National (West Indies) Steamships Limited, tabled this day, be referred to the Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government.

Attest

LEON J. RAYMOND

Clerk of the House.

REPORTS TO THE HOUSE

FRIDAY, July 11, 1958.

The Sessional Committee on Railways, Air Lines and Shipping has the honour to present its

FIRST REPORT

Your Committee recommends:

1. That its quorum be set at 10 members.
2. That it be empowered to sit while the House is sitting.
3. That it be authorized to print, from day to day, 1,000 copies in English and 250 copies in French of its minutes of proceedings and evidence and that Standing Order 66 be suspended in relation thereto.

Respectfully submitted,

W. EARL ROWE,
Chairman.

NOTE: Concurred in this day.

WEDNESDAY, July 16, 1958.

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government has the honour to present the following as its

SECOND REPORT

Your Committee has considered the following items of the Estimates referred to the Committee on Wednesday, July 9, 1958:

Vote 431—Prince Edward Island Car Ferry and Terminals;

Vote 432—Newfoundland Ferry and Terminals;

Vote 442—Maritime Freight Rates Act; and

Vote 443—Canadian National (West Indies) Steamships Limited, of the Main Estimates 1958-59, and item 635—Canadian National (West Indies) Steamships Limited of the Supplementary Estimates 1958-59.

Your Committee recommends their approval.

Respectfully submitted,

W. EARL ROWE,
Chairman.

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, begs leave to present the following as its

THIRD REPORT

Pursuant to the Orders of Reference of the House of Commons of July 9th, 11th and 14th, 1958, your Committee had for consideration the following:

1. The Annual Reports of the Canadian National Railways; Canadian National (West Indies) Steamships, Limited; Canadian National Railways

Securities Trust, for the year 1957 and the Auditors' Reports to Parliament in relation thereto, tabled on May 22nd, 1958 and the Canadian National Railways revised capital and Operating Budget for 1958 tabled on July 14th, 1958; the Annual Report of Trans-Canada Air Lines for the year 1957 and the Operating and Capital Budget thereof for the year 1958, and the Auditors' Report to Parliament thereon.

2. Your Committee held eight meetings in the course of which the officials of the Canadian National Railways and the Trans-Canada Air Lines as well as representatives of George A. Touche & Co., Auditors, were heard and examined.

3. The Annual Report of the Canadian National Railways for 1957 disclosed operating revenues of \$753,165,964.00 and operating expenses of \$734,556,041.00 resulting in a net revenue from Railway operations of \$18,609,923.00. However, after taxes, rents, other income and fixed charges were taken into account the net result was a deficit of \$29,572,541.00 for the year's operations. This compares with a surplus of \$26,076,951.00 in the year 1956, the change being attributed to a combination of lower traffic and higher wage and material costs. Your Committee noted however that in spite of the traffic decline in 1957 the Canadian National continued to improve and modernize its equipment, facilities, methods and techniques.

4. Your Committee observed that in 1957 three separate new rail lines were added to the Canadian National System, opening up additional areas of Canada for settlement and development. In Quebec, a 161-mile line from Beattyville to Chibougamau was officially opened in November and progress made on a 133-mile line from St. Felicien to Cache Lake, where it will link up with the Beattyville-Chibougamau branch. In New Brunswick, a 23-mile line was opened between Bartibog and the base metal development of Heath Steele. In Manitoba, Canadian National took over operation of a new 31-mile line from Sipiweesk on the Hudson Bay line to the International Nickel Company development at Thompson.

5. Your Committee also noted with satisfaction that progress was made during the year on the Company's long range plans for the construction of new automatic train marshalling yards at main strategic centres in the Atlantic, Central and Western Regions.

6. The Annual Report of the Canadian National (West Indies) Steamships, Limited for 1957 disclosed a net deficit of \$648,849.80, compared with a surplus of \$23,280.72 for 1956. Operations of the Company were curtailed during 1957 by a strike called by the Seafarers International Union effective July 4. As a result of the strike, which remained unsettled at the year end, the number of voyages made by the company vessels was reduced to 33 from 54 in the previous year.

7. Your Committee was also informed that the decision had been reached to abandon the service, dispose of the assets by sale and wind up completely the above Company's affairs.

8. The Annual Report of Trans-Canada Air Lines for 1957 showed a net surplus of \$404,674, after provision for depreciation of \$6,819,160, and the payment of interest on capital invested in the enterprise in the amount of \$1,690,819. The year 1957 was the seventh consecutive one in which the company reported a profitable operation.

9. Of particular interest to your Committee was the fact that the programme of fleet conversion to turbine type aircraft, which by 1961 is expected to make TCA the first international airline in the world to have a fully turbine-powered

fleet, was adhered to during 1957, fourteen additional Viscounts being placed in service, and six DC 3's retired. Your Committee also noted that, as planned, the company in 1957 had increased its capacity by 20 per cent in relation to a 15 per cent increase in traffic carried. This action, while reducing the over-all load factor from 73.1 per cent in 1956 to 70.7 per cent in 1957, substantially improved the company's ability to meet the peak period traffic demand. It was also noted that as of the year end, the company had on order nineteen Viscounts, six full jet DC 8 long range aircraft, and twenty medium range Vanguard turbine propeller aircraft, which, with associated spares, represent a capital commitment of \$118,000,000, exclusive of payments already made on these orders.

10. Your Committee adopted the Annual Reports of the Canadian National Railways and Trans-Canada Air Lines for 1957, as well as their respective Capital and Operating Budgets for 1958. Your Committee also approved the C.N.R. Securities Trust and the Auditor's Report to Parliament. It also approved the Annual Report for 1957 of the Canadian National (West Indies) Steamships, Limited, and the Auditor's Report thereon.

11. Your Committee, in accordance with an Order of Reference of the House, dated July 9th, considered Votes 431, 432, 442 and 443 as listed in the Main Estimates for 1958-59, and Item 635 as listed in the Supplementary Estimates 1958-59. In its Second Report to the House, your Committee recommended the approval of the said Estimates.

12. Your committee feels indebted to all those who contributed to its inquiring by their attendance and their information, including the Minister of Transport and Mr. Donald Gordon, C.M.G., LL.D., Mr. S. F. Dingle and Mr. R. D. Armstrong for the Canadian National Railways; and Mr. G. R. McGregor, Mr. W. S. Harvey, Mr. H. W. Seagrim, Mr. S. W. Sadler for Trans-Canada Air Lines, and Mr. J. A. Wilson and Mr. J. W. Beech, Auditors.

13. Your Committee also wishes to express its appreciation to Mr. McGregor, his officials, and T.C.A. crew for a flight on board Trans-Canada Air Lines Viscount over the St. Lawrence Seaway Development project which took place on Wednesday, July 16th.

14. A copy of the Minutes of Proceedings and Evidence adduced in respect of the matters referred to is appended.

Respectfully submitted,

W. EARL ROWE,
Chairman.

MINUTES OF PROCEEDINGS

FRIDAY, July 11, 1958.

(1)

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government held its organization meeting at 10.30 o'clock a.m.

Members present: Messrs. Bourbonnais, Broome, Chown, Fisher, Grills, Gundlock, Hardie, Loisselle, Martini, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Rynard, and Smith (*Calgary South*). (15)

The Clerk of the Committee attending, on motion of Mr. Broome, seconded by Mr. Martini, and there being no further nominations, Honourable W. Earl Rowe was elected Chairman.

Mr. Rowe took the Chair, thanked the Members for his election and proceeded to the routine business.

On motion of Mr. Chown, seconded by Mr. Fisher,

Resolved: That Mr. Tassé be elected Vice-Chairman.

On motion of Mr. Chown, seconded by Mr. Fisher,

Resolved: That the Committee recommend to the House that the quorum be 10 members.

On motion of Mr. Pascoe, seconded by Mr. Martini,

Resolved: That the Committee ask power to print, from day to day, 1000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence.

On motion of Mr. Martini, seconded by Mr. Smith,

Resolved: That the Committee seek authorization to sit while the House is sitting.

After discussion on the most suitable hours of sitting of the Committee, beginning Monday July 14, on motion of Mr. Broome, seconded by Mr. Fisher,

Resolved: That the Committee be called for 9.30 o'clock a.m.

The Chairman reminded the Members that the practice for this Committee was to hold three meetings every day until completion of its business during which meetings officials of the Canadian National Railways and of Trans-Canada Air Lines would be in continuous attendance, and that it was customary to begin with the Canadian National Railways Annual Report.

The Chairman referred briefly to a letter of the President of Trans-Canada Air Lines inviting the members of the Committee to a special flight over the St. Lawrence Seaway Development as soon as practicable.

On motion of Mr. Rynard, the Committee adjourned until Monday, July 14, at 9.30 o'clock a.m.

T. C. A.

AFTERNOON SITTING

(6)

TUESDAY, July 15, 1958.

Continuing its afternoon sitting and after having completed its examination of the C.N.R. Reports, the Committee began its consideration of the Trans-Canada Air Lines Annual Report for 1957, the Capital Budget for 1958 and the Auditors' Report, the Honourable W. Earl Rowe still presiding.

Members present: Messrs. Bourbonnais, Broome, Carter, Chevrier, Chown, Creaghan, Fisher, Fraser, Gundlock, Kennedy, Loiselle, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robichaud, Rowe, Rynard, Smith (*Calgary South*), Smith (*Simcoe North*), and Tassé. (21)

In attendance: The Honourable George H. Hees, Minister of Transport; Mr. G. R. McGregor, President of Trans-Canada Air Lines; Mr. W. S. Harvey, Comptroller; Mr. S. W. Sadler, Assistant Comptroller; Mr. H. W. Seagrim, Vice-President, Operations; Mr. R. C. MacInnes, Director of Public Relations; Mr. Leo Palmer, Public Relations Manager, Ottawa; all of Trans-Canada Air Lines.

Mr. G. R. McGregor was called and he introduced his officials.

Mr. McGregor read the T.C.A. Annual Report, and its consideration was taken by headings. A brief discussion took place in the course of his examination on competition from other carriers.

At the request of Mr. Broome, Mr. McGregor undertook to file with the Committee a summary of passes issued by T.C.A.

On motion of Mr. Smith (*Calgary South*), seconded by Mr. Smith (*Simcoe North*), said Annual Report was approved.

The Committee adjourned at 5.45 p.m. until 8.00 o'clock in the evening.

EVENING SITTING

(7)

The Committee resumed at 8.00 o'clock. The Chairman, Honourable Earl Rowe, presided.

Members present: Messrs. Broome, Carter, Chown, Creaghan, Fisher, Fraser, Grills, Gundlock, Hardie, Kennedy, Loiselle, Mitchell, Monteith (*Verdun*), Pascoe, Rowe, Rynard, Smith (*Calgary South*), Smith (*Simcoe North*), and Tassé. (19)

In attendance: Same as at afternoon sitting.

The 1958 Financial Budget was considered and adopted on motion of Mr. Tassé, seconded by Mr. Chown.

Mr. McGregor's examination was concluded.

The Chairman expressed to Mr. McGregor and his officials the Committee's appreciation. Mr. McGregor in acknowledging, thanked in turn the members of the Committee.

The Committee proceeded to consider the Auditors' Report. Mr. J. A. Wilson was recalled, briefly questioned and retired.

On motion of Mr. Fisher, seconded by Mr. Smith (*Calgary South*), the Auditor's Report was adopted.

Mr. McGregor was assisted by Messrs. Harvey, Seagrim and Sadler; Mr. Wilson was assisted throughout the proceedings by Mr. Beech.

On motion of Mr. Fraser, seconded by Mr. Carter,

Ordered,—That all answers filed with the Committee be printed as appendices. (*See Appendices A., B., C. and D.*)

The Chairman thanked Messrs. Wilson and Beech representing the firm of George A. Touche & Co. for their continuous attendance.

Before adjourning, the Chairman reminded the members of the Committee that the proposed flight over the St. Lawrence Seaway was scheduled for Wednesday between 11.20 a.m. and 2.20 p.m.

At 8.40 o'clock p.m., on motion of Mr. Smith (*Calgary South*), the Committee adjourned to the call of the Chair, at which meeting the Committee will consider its Third Report to the House.

Tuesday, July 29, 1958.

(8)

The Sessional Committee on Railways, Air Lines and Shipping met at 10 o'clock this day in camera to discuss its Third Report to the House. The Chairman, the Honourable Earl W. Rowe, presided.

Members present: Messrs. Bourbonnais, Carter, Drysdale, Martini, Mitchell, Robinson, Rowe, Smith (*Simcoe-North*), and Tassé—(10).

The Chairman tabled copies of a draft report for the consideration of the Committee.

After a brief discussion, on motion of Mr. Robichaud, seconded by Mr. Robinson, the said draft report was adopted.

Ordered,—That the Chairman present the draft report as the Committee's third report to the House.

The Committee adjourned to the call of the Chair.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

APPENDIX A

TRANS-CANADA AIR LINES

PASSES ISSUED

	NOC	Year 1957 CON	Total
ANNUAL	115	421	536

COMPANY BUSINESS

Employees on business (including employee transfers)	171	4,080	4,251
Educational		591	591
Periodic tour or Familiarization			
Link Instructors		42	42
Flight Dispatch Supervisors and Dispatchers		230	230
Employee Familiarization		1,029	1,029
Dependent Transfers		427	427
Applicants for employment and employees leaving the Company		813	813
Total	171	7,212	7,383

EMPLOYEES PERSONAL ACCOUNT

Vacation	12	20,103	20,115
Compassionate		654	654
Isolated Leave		403	403
Total	12	21,160	21,172

PERSONS OUTSIDE THE COMPANY

Promotional and Public Relations	605	841	1,446
Courtesy Trips between points in the United Kingdom		173	173
Department of Transport		112	112
Air Transport Board	6		6
Canadian National Railways	313	142	455
Total	924	1,268	2,192

All passes issued in accordance with regulations or prior approval of ATB.
 N.B. Exclusive of flight crew dead heading between points.
 (The above in reply to a question by Mr. Broome.)

APPENDIX B

TRANS-CANADA AIR LINES

TORONTO-MONCTON DIRECT SERVICE

Date of Inauguration—June 1, 1958

Type of Equipment—Viscount

*Passenger Load Factors—June, 1958

Eastbound 77%

Westbound 58%

(The above in reply to a question by Mr. Creaghan.)

TRANS-CANADA AIR LINES

*Boarding Passengers in Canada**Year 1957*

Labrador	
Goose Bay	2,106
Newfoundland	
St John's	33,058
Gander	17,250
Stephenville	14,444
Nova Scotia	
Sydney	22,611
Halifax	67,245
Yarmouth	5,319
New Brunswick	
Moncton	26,034
Fredericton	10,900
Saint John	18,332
Quebec	
Seven Islands	8,410
Saguenay	6,221
Quebec City	43,911
Montreal	363,791
Val d'Or	6,218
Rouyn-Noranda	4,135
Ontario	
Ottawa	81,666
Toronto	455,964
London	22,340
Windsor	41,639
Muskoka	406
Earlton	1,871
North Bay	9,548
Sudbury	13,250
Timmins	8,613
Kapuskasing	2,928
Sault Ste Marie	10,335
Fort William	20,165

* % of seats occupied

Manitoba	
Winnipeg	83,474
Brandon	1,837
Saskatchewan	
Yorkton	2,370
Regina	35,572
Swift Current	1,441
Saskatoon	16,591
Alberta	
Medicine Hat	1,624
Lethbridge	8,054
Calgary	91,646
Edmonton	80,954
British Columbia	
Vancouver	202,047
Victoria	150,534
(The above in reply to a question by Mr. Fisher.)	

TRANS-CANADA AIR LINES

PROPERTY & EQUIPMENT BUDGET—1958

BUILDING EXPENDITURES BY LOCATIONS

<i>Vancouver</i>	
Single Bay Hangar (DC-8)	\$ 250,000
Concrete and asphalt work	60,000
<i>Winnipeg</i>	
New main guardhouse	7,000
<i>Toronto</i>	
Alterations to hangar to accommodate DC-8's	50,000
<i>Montreal</i>	
Engineering & Maintenance and other Operations Dept facilities	6,200,000
Lavatory servicing building	8,000
	<hr/>
	\$ 6,575,000
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(The above in reply to a question by Mr. Smith (Calgary South).)

EVIDENCE

AFTERNOON MEETING (Continuation)

TUESDAY, July 15, 1958.
3.55 P.M.

The CHAIRMAN: Now, gentlemen, I might introduce to you Mr. Gordon R. McGregor, President of the Trans-Canada Air Lines, and we will be glad to have his Annual Report on the T.C.A., copies of which you have before you. Is it your desire that Mr. McGregor give the Report by reading the high spots?

Mr. SMITH (*Simcoe North*): I think that the procedure which the Committee followed of the Reports of the Canadian National Railways was an excellent way to expedite business.

The CHAIRMAN: Very well, then, Mr. McGregor, you may proceed.

Mr. G. R. MCGREGOR (*President, Trans-Canada Air Lines*): Thank you, Mr. Chairman. May I begin, sir, by introducing the members of T.C.A. who are present—myself, Mr. W. S. Harvey on my right, who is the comptroller of the company, Mr. Sadler, who is in the room, is assistant comptroller, Mr. H. W. Seagrim, vice-president of operations, and Mr. McInnis, director of public relations. I may refer questions dealing with the specific operation of flights to Mr. Seagrim.

With your indulgence might I re-confirm an announcement about a flight that is proposed to be conducted tomorrow noon? I think most of the members of the committee, sir, are familiar with it, but the plan is if you will concur that we break off committee work, if it is still going on at that time, at 11.20 tomorrow. There would be a bus waiting at the main entrance of the centre block for departure at 11.30. The flight will take off from Uplands airport at 12.00 o'clock.

We will fly over the seaway between Cornwall and Iroquois and we will do it in both directions so that the passengers on one side can see the seaway development at one time and the passengers on the other side can see the same view during the return flight.

We will have the public relations officer of the seaway speaking on the cabin address system, and he will describe what we are passing and where we are at any particular moment. Lunch will be served on the flight and it will be planned to land back at Uplands at 1.50 p.m., with bus departure for parliament hill at 2.00, arriving here at 2.20, which I understand is satisfactory.

Mr. CHOWN: May I ask Mr. McGregor if he is providing stewardesses?

Mr. MCGREGOR: Yes, just two.

Mr. FRASER: The minister will order fine clear weather, I hope.

Mr. HEES: Yes, I just put the order in now.

The CHAIRMAN: I know the committee will appreciate that, Mr. McGregor.

Mr. CHEVRIER: I hope the minister will countermand the order.

Mr. MCGREGOR: The report dated Februry 28, 1958 is addressed to the Hon. Minister of Transport, Ottawa, and reads as follows:

ANNUAL REPORT

MONTREAL, February 28, 1958.

To the Honourable,
The Minister of Transport, Ottawa.

Sir:

The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1957.

Financial

The financial results recorded by the Company in 1957 reflect a substantial growth in gross revenue, an even greater increase in expenses and a consequent reduction in the net income as compared with 1956. Net income for the year was \$404,674.

The 1957 gross revenue of \$104,996,000 represents an increase of 15%, but it should be noted that this figure is the net result of an increase of 20% in the first half and 11% in the second half of 1957 with respect to corresponding periods of 1956.

A summary of the principal elements of revenues and their proportional contribution to the total is as follows:

	Amount	% of Total
Passenger	\$86,523,981	82.4
Mail	9,662,585	9.2
Express	2,059,920	2.0
Freight	4,159,443	4.0
Other	2,589,778	2.4

While the most rigid possible control was exercised, operating expenses increased 16% to a total of \$103,500,000, made up as follows:

	Amount	% of Total
Salaries and Wages.....	\$44,539,866	43.0
Fuel and Oil.....	15,895,420	15.4
Maintenance Materials	11,554,019	11.2
Depreciation	6,819,160	6.6
All other	24,691,048	23.8

Apart from the increased volume of transportation work performed, expenses were adversely affected by higher rates of employee remuneration, increased scales of aircraft landing fees in Canada and the United Kingdom, an increase in the average cost of aviation fuel, and a tax of 2c per gallon levied by the province on all aviation fuel loaded in Ontario.

With air transportation as with other industries, unit costs tend to decrease as the total volume of work performed by a company increases. This effect, together with the higher proportion of more efficient aircraft which were in service, partially but not fully compensated for the continuing rise in the cost of the ingredients of the product.

Had this volume increase not occurred, a deficit would have resulted.

Capital expenditures during the year amounted to \$25,572,000, representing for the most part, final delivery payments on new aircraft. TCA is now committed by purchase contracts to spending \$118,000,000 on turbine aircraft and spares during the period 1958 to 1961 inclusive.

Service and Traffic Growth

In 1957 the transportation capacity of the airline, measured in terms of seat-miles available to passengers, was increased by 20%. By adding aircraft to the fleet and increasing flight frequency on many routes, TCA continued its progressive expansion of public service. The chart on page 8 illustrates the steady growth of passenger-carrying capacity during the past decade and its relationship to actual demand.

The planned increased of available transportation was well utilized during the first half of the year, but the percentage of seats occupied declined during the latter half of the year.

An event in Canadian transportation history was the introduction of non-stop air service between Toronto and Vancouver, reducing transcontinental travel time to seven hours. Also of significance were the inauguration of non-stop Atlantic service between Toronto and the United Kingdom and the routing of a daily transcontinental flight through Windsor.

Operations with the propeller-turbine Viscounts were extended to London (Ontario), Quebec City, Saguenay, Seven Islands, Moncton, Fredericton, Saint John, Yarmouth, Halifax and Boston. On the majority of routes served by Viscounts prior to 1957 the flight frequency was increased to meet the public demand for this extremely popular aircraft type.

The transcontinental main line was particularly well served with seven daily flights to the West Coast, and two additional daily flights operating between the eastern centres and Albertan centres. During the peak traffic period, twelve flights per week crossed the Atlantic in both directions.

TCA engaged in active promotion of air transportation, with particular emphasis upon newspaper, radio and television advertising. For the second successive year, well over two million passengers were carried.

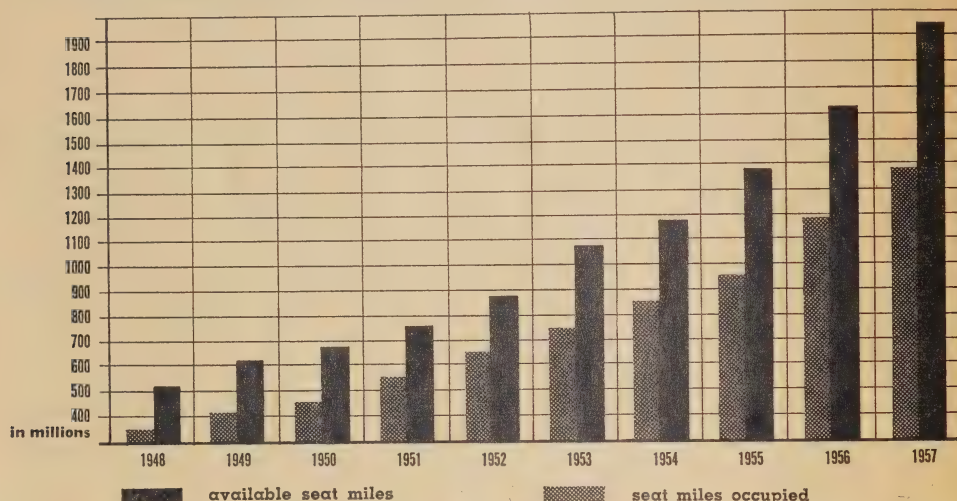
In conformity with its policy to keep the cost of air transportation in Canada at the lowest level consistent with the maintenance of a sound financial position, the Company again avoided general increases in passenger fares or cargo rates. In fact, a reduction in average return to the Company per revenue passenger mile was achieved.

First class mail moved by air in heavy volume, expediting delivery wherever the use of aircraft offered advantage over surface transportation. TCA enjoyed the closest cooperation of the Canadian Post Office Department and endeavoured to operate, to the greatest possible extent, schedules consistent with postal requirements. As mail traffic again increased, there was a further decline, by contract, in the unit mail payment received for the transportation provided. This trend of recent years is illustrated on page 16.

The growth of air freight and air express continued, although traffic remained strongly directional and was still far from sufficient to fill the extensive capacity offered by the airline in its endeavour to stimulate this type of load. A daily transcontinental freight service was flown with all-cargo North Stars, each capable of carrying nine tons of commodities, and other cargo accommodation was offered on all scheduled flights. TCA was able to provide most domestic

freight shippers next-day delivery within a 1,500-mile radius and second-day delivery to points beyond.

SEAT MILES MADE AVAILABLE & SEAT MILES OCCUPIED 1948-1957



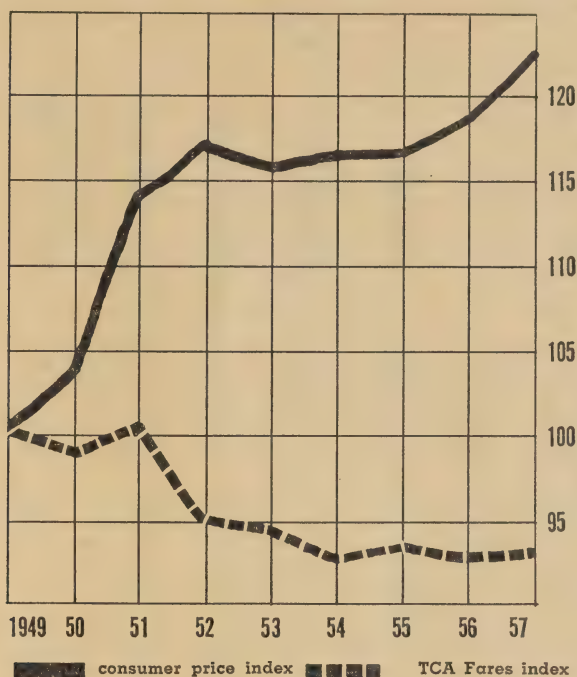
The airline, at the end of 1957, was operating on 27,782 miles of air routes and serving 56 communities, 39 of them in Canada. Of the latter, 27 had populations of less than 100,000. The route map on pages 14 and 15 illustrates the scope of the Company's routes within Canada and to the United States, British Isles, France, Germany, Bermuda and the Caribbean.

Equipment and Facilities

Fourteen more Viscounts and two additional Super "G" Constellations were acquired by the Company, while six DC-3s were retired from service and offered for sale. An option was exercised on thirteen additional Viscounts. The fleet at year-end was comprised of eleven Super Constellations, thirty-two viscounts, twenty-one North Stars and eighteen DC-3s. 84% of the airline's total aircraft mileage was flown by four-engine pressurized equipment.

During the year the Company announced its selection of the Rolls-Royce Tyne powered Vickers Vanguard as the aircraft which it would operate in the future on all routes which, due to either traffic volume or length, were not ideally suited to either the comparatively short-ranged Viscount or the very long-ranged DC-8. Twenty of these large propeller-turbine airliners were ordered and an option taken on four more. This purchase, amounting to \$67,000,000, was the largest single dollar order placed in post-war Britain and a further expression of TCA's confidence in the Vickers-Armstrongs and Rolls-Royce companies.

INDEX OF TCA FARES VS CONSUMER PRICE INDEX 1949-1957
(YEAR 1949 = 100)



Wing tip fuel were installed on the Super Constellation fleet, making possible the operation of non-stop trans-Atlantic flights to and from Canadian termini west of Montreal. The installation of airborne "weather" radar for the Super Constellation fleet was proceeded with.

The excellent performance of the flight equipment throughout the year again fully justified the company's strict adherence to the highest standards of maintenance and overhaul. 97.5% of all scheduled mileage was completed.

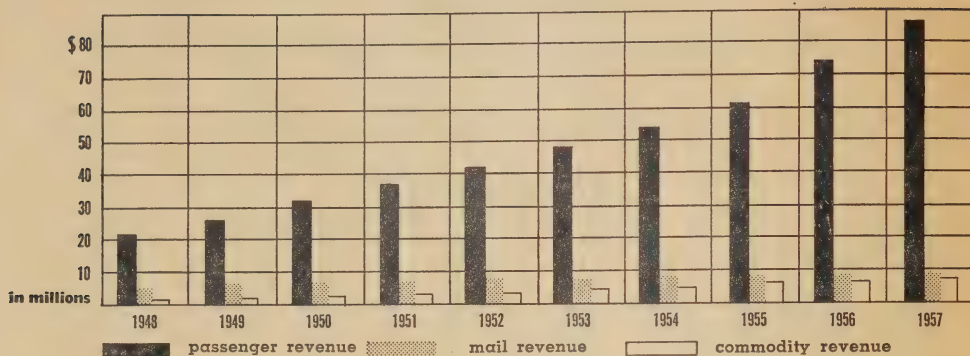
TCA's ground facilities were expanded, to meet the greater traffic volume and larger scale of operations. In particular, sales and reservations offices were enlarged at several points.

The Department of Transport continued a broad programme of airport improvements throughout Canada. Extensive runway construction took place and the initial installations of long range surveillance radar represented a marked advance in airway traffic control.

Personnel

TCA staff at December 31st numbered 9,726, approximately two-thirds of these being employed in the technical departments. The average number of employees on the company's payroll in 1957 was 7.9% greater than in 1956, while the volume of work performed, expressed in ton-miles made available for sale, increased by 16%. These figures represent a further increase in employee productivity.

SOURCES OF TCA SYSTEM REVENUE 1948-1957



In conformity with Company policy of long standing, the "management development" programme continued through 1957. In addition, particular attention was paid to personnel instruction at all levels in the organization.

Planning

The pace of TCA's preparation for what is generally referred to as the Jet Age quickened in 1957 and will accelerate as the time approaches for delivery of the advanced aircraft of tomorrow.

Scheduled operation of aircraft of the size and speed of the full jet DC-8 and the turbine propeller powered Vanguard which the Company will undertake in 1960 and 1961 calls for the planned development of new procedures and facilities, for air and ground personnel training, maintenance and overhaul, ramp handling and flight management. It is gratifying to be able to report that a large proportion of this exacting work has been completed.

To the extent that the equipment plans of other carriers are now known, TCA will be the first international air line in the world to be completely equipped with turbine powered aircraft.

The DC-8, of which six are on order, will carry 120-135 passengers and fly at 550 miles per hour. The Vanguard will accommodate as many as 107 passengers and fly in excess of 420 miles an hour. Together with the proven Viscount, they will give Canada an unexcelled standard of air transportation. The DC-8 will enter service in early 1960 and the Vanguard in 1961. The speed and capacity of these airliners will make them extremely productive, if sufficient traffic is available to ensure good load factors and utilization. In acquiring them, TCA is expressing confidence in Canada's future.

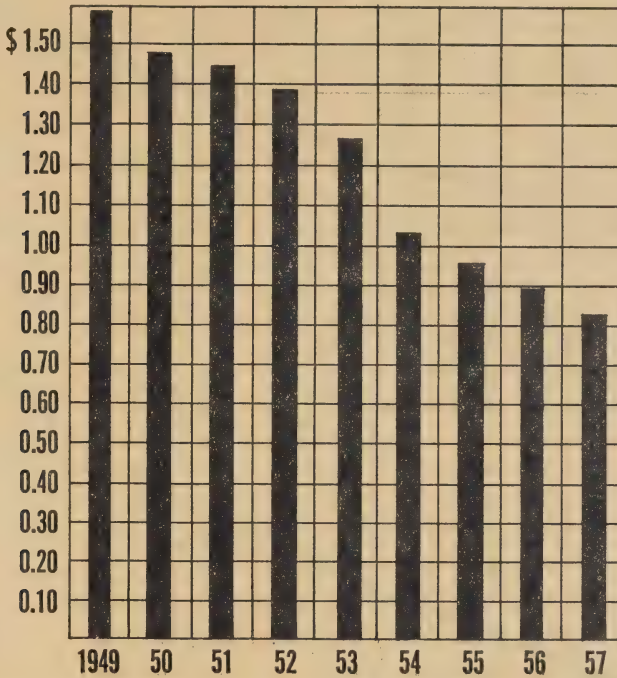
For the care of the DC-8s and Vanguards, a large overhaul and maintenance base will be built at Montreal. It will be the first of its kind to be devoted entirely to the needs of turbine aircraft.

TCA has, for some years, been engaged in the study of special applications of modern electronic techniques to air line operations. In 1958 the Company will take delivery of an IBM 650 Magnetic Tape electronic computer. The programming associated with revised inventory control procedures is well advanced and studies are under way with respect to possible applications in the areas of Maintenance and Operations Planning. In addition, good progress has been made in the development of the prototype of a new electronic reservations system which offers promise of speed and accuracy unattainable by manual means. Tests are continuing.

The delivery of fifteen more Viscounts during the first half of 1958 will enable TCA to introduce this fine equipment to a number of additional cities and to intensify its use generally on domestic routes. This expansion of the

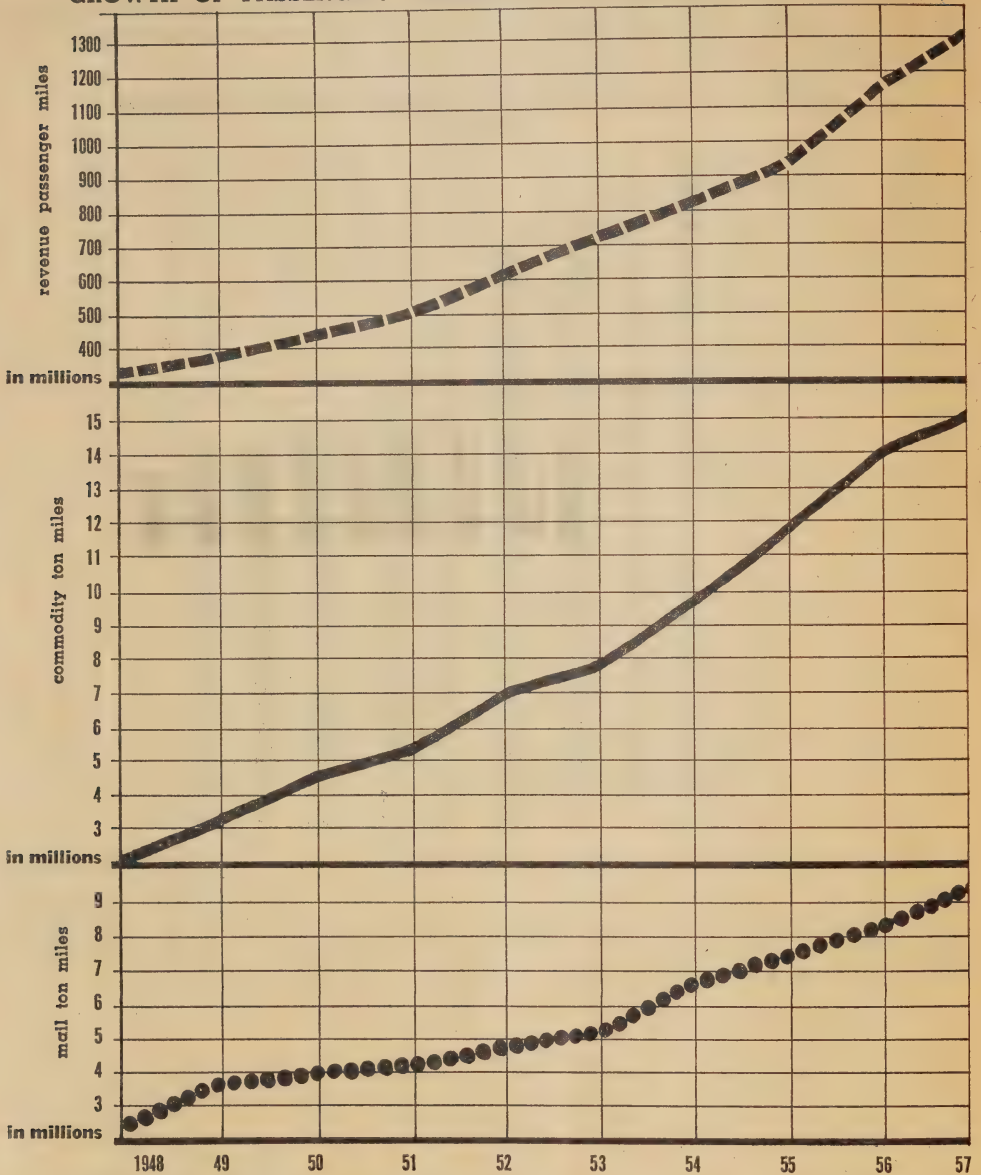
Viscount fleet to 47 aircraft will permit the retirement of a large proportion of the remaining DC-3s and there will be a further substantial increase in the overall transportation capacity of the airline.

**MAIL PAY PER MAIL TON MILE 1949-1957 NORTH AMERICAN
SERVICE**



As a result of a detailed tariff study, plans were completed in 1957 for the introduction of a revised Canadian route fare structure to be effective January 1, 1958. The principal changes called for were a reduction in the First Class round trip discount from 10% to 5% and a reduction in Tourist fares which averaged 13%, and ranged as high as 20%.

GROWTH OF PASSENGER, COMMODITY & MAIL TRAFFIC 1948-1957



These passenger fare changes bring about virtually the same relationship between First and Tourist class fares as exists in the United States, and place air travel within the economic reach of a larger number of Canadians.

It should be noted that the Tourist tariff reduction occurred at a time when all the larger airlines in the United States were granted a general interim fare increase of 4% plus \$1.00 per one-way ticket.

The directors value the opportunity provided by the Company's annual report to publicly record their recognition and appreciation of the high quality of the work performed, and the unremitting care exercised by the personnel of TCA.

For the Directors,
G. R. McGREGOR,
President.

ASSETS

CURRENT ASSETS

Cash.....	\$ 1,172,647
Accounts receivable:	
Government of Canada.....	\$ 1,831,136
Traffic balances from other air lines.....	2,108,286
Air travel plan.....	1,849,897
Travel agents.....	763,117
Other.....	1,743,396
Materials and supplies—latest invoice price.....	8,205,832
Other current assets.....	12,563,725
	<u>291,484</u>
	\$ 22,323,688

INSURANCE FUND..... 5,670,577

CAPITAL ASSETS

Property and equipment—at cost.....	\$ 99,275,232
Less: Accumulated depreciation.....	42,411,470
	<u>\$ 56,863,825</u>
Progress payments on purchase of aircraft.....	6,187,224
	<u>63,051,049</u>
	<u><u>\$ 91,045,314</u></u>

This is the balance sheet referred to in our report to the Minister of Transport dated February 20th, 1958.

GEORGE A. TOUCHE & Co.
CHARTERED ACCOUNTANTS
Auditors.

LIABILITIES

CURRENT LIABILITIES

Notes payable.....	\$ 5,000,000
Accounts payable.....	7,152,102
Traffic balances payable to other air lines.....	2,786,087
Air travel plan deposits.....	1,561,450
Salaries and wages.....	1,669,396
Prepaid transportation.....	2,623,306
Interest payable.....	719,574
	<u>\$ 21,511,915</u>

LOANS AND DEBENTURE—Canadian National Railways

Notes payable.....	\$ 32,000,000
Debenture, 3½% maturing January 1st, 1973.....	<u>20,000,000</u>

52,000,000

RESERVES

Insurance.....	\$ 5,670,577
Overhaul.....	<u>391,714</u>

6,062,291

CAPITAL STOCK

Common stock—authorized 250,000 shares par value \$100 per share.
—issued and fully paid, 50,000 shares..... 5,000,000

SURPLUS

Balance, January 1st, 1957.....	\$ 6,267,011
Net income, year 1957.....	<u>404,674</u>

Appropriated for Insurance Reserve.....
\$ 6,671,685
200,577

6,471,108

\$ 91,045,314

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Balance of payment for equipment under contract..... \$118,000,000
Notes under discount with the bank in connection with the Pay
Later Plan..... 760,000

W. S. HARVEY,
Comptroller.

STATEMENT OF INCOME

OPERATING REVENUES	1957	1956
Passenger.....	\$ 86,523,981	\$ 74,478,516
Mail.....	9,662,585	8,869,934
Air Express and Freight.....	6,392,156	6,010,397
Excess Baggage.....	893,968	758,998
Charter.....	280,155	253,011
Incidental Services—Net.....	1,242,862	935,190
Total.....	<u>\$104,995,707</u>	<u>\$ 91,306,046</u>
OPERATING EXPENSES		
Flying Operations.....	\$ 23,837,126	\$ 19,890,279
Maintenance.....	28,721,065	25,356,118
Passenger Service.....	6,452,870	5,390,667
Aircraft and Traffic Servicing.....	19,090,650	16,196,418
Sales and Promotion.....	15,036,818	12,490,785
General and Administrative.....	3,541,824	2,901,273
Total.....	<u>\$ 96,680,353</u>	<u>\$ 82,225,540</u>
INCOME FROM OPERATIONS.....	\$ 8,315,354	\$ 9,080,506
Provision for Depreciation.....	6,819,160	6,971,575
	<u>\$ 1,496,194</u>	<u>\$ 2,108,931</u>
NON-OPERATING INCOME—NET		
Interest and Discounts.....	324,196	370,375
Sale of Aircraft.....	120,875	250,000
Miscellaneous.....	154,228	113,958
INCOME BEFORE INTEREST EXPENSE.....	\$ 2,095,493	\$ 2,843,264
Interest on Capital Invested.....	1,690,819	1,287,052
NET INCOME.....	<u>\$ 404,674</u>	<u>\$ 1,556,212</u>

NOTES:—No provision for Income Taxes has been made in 1957 by reason of expenses charged to the Insurance Reserve which are deductible for tax purposes.

For comparative purposes, 1956 operating expenses have been restated to conform with a re-classification of accounts in 1957. This has no effect on the net operating results for either year.

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS

To The Honourable The Minister of Transport,
Ottawa, Canada.

We have examined the books and accounts of Trans-Canada Air Lines for the year ended December 31st, 1957. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and related statement of income are properly drawn up so as to give a true and fair view of the state of the Corporation's affairs at December 31st, 1957, and of the results of its operations for the year then ended, according to the best of our information and the explanations given to us, and as shown by the books of the Corporation, and in our opinion the statements are prepared on a basis consistent with that of the preceding year, except that a provision of \$1,200,000 for accelerated depreciation on Super Constellation aircraft was included in the 1956 accounts and no such provision was made in 1957.

We further report that in our opinion proper books of account have been kept by the Corporation, and the transactions of the Corporation that have come under our notice have been within the powers of the Corporation.

We are also submitting a supplementary explanatory report.
February 20th, 1958.

GEORGE A. TOUCHE & CO.
Chartered Accountants

Significant Statistics

	1957	1956	% change
Revenue Passengers	2,392,713	2,072,912	+15.4%
Seat Miles Made Available (000's)	1,959,830	1,631,238	+20.1%
Seat Miles Occupied (000's) ..	1,385,777	1,191,784	+16.3%
Revenue Passenger Load Factor	70.7%	73.1%	
Mail Ton Miles (000's)	9,855	8,613	+14.4%
Express Ton Miles (000's)	2,575	2,548	+ 1.1%
Freight Ton Miles (000's)	12,903	11,928	+ 8.2%
Ton Miles Made Available (000's)	273,431	235,934	+15.9%
Ton Miles Used (000's)	162,577	141,778	+14.7%
Weight Load Factor	59.5%	60.1%	
Total Aircraft Miles Flown (000's)	46,667	41,039	+13.7%
% Scheduled Miles Completed	97.5%	95.6%	
Average Number of Employees	9,480	8,788	+ 7.9%
Seat Miles Made Available per Employee	206,733	185,621	+11.4%

The CHAIRMAN: Gentlemen, you have heard the president's report.

Mr. CHOWN: Are you having any difficulty in unloading these DC-3's? I presume there is a ready market for them?

Mr. MCGREGOR: The market has deteriorated over the last year and a half because other airlines are in the same position of having surplus DC-3's. It is a little early to say, however, I think all the DC-3's that have become redundant to the fleet requirement will have been sold within the next few weeks.

Mr. SMITH (*Calgary South*): Could I ask how you intend to proceed with the examination of this report? I would also like to know what the position is in respect of discussions that have taken place previously in regard to competition with T.C.A.

The CHAIRMAN: I think in regard to the first portion of your question, Mr. Smith, that we will proceed as we did in regard to the annual report of the C.N.R. We will proceed with the subjects listed under the headings in this report.

Mr. BROOME: What about the second part of his question?

Mr. SMITH (*Calgary South*): The point I raised was, in the evidence of a previous meeting there was some discussion with respect to the T.C.A. and competition.

The CHAIRMAN: You are speaking of competition of private ownership?

Mr. SMITH (*Calgary South*): I had in mind transcontinental competition. However, it has occurred to me that this may not be relevant to this particular discussion. I think we should have a discussion in this regard and if it is going to be introduced I would like to know at what point in these proceedings.

The CHAIRMAN: I do not think such a discussion relates to this report.

Mr. MCGREGOR: I might mention the fact that there have been applications submitted for transcontinental routes by two other carriers. An application was made to the Air Transport Board. The Air Transport Board has declared its intention of having a hearing. I think perhaps it would be prejudicial to that hearing if this subject were discussed here.

Mr. SMITH (*Calgary South*): I agree with that settlement. That is the reason I asked the question.

Mr. FISHER: Is there a possibility that we will be allowed to discuss the Wheatcroft report?

Mr. HEES: As I said in the House of Commons, Mr. Chairman, that report was primarily made for the guidance of the Air Transport Board in examining this whole matter. I think it should be treated as such. I do not intend to discuss it here.

Mr. CHEVRIER: Mr. Chairman, surely there must be some possibility of discussing competition generally? I can well understand the reason for not discussing the application which is before the Air Transport Board, which is a semi-judicial body and is to some extent raise *judicata*, but surely we can, without going into that, get Mr. McGregor opinion in regard to competition.

For instance, what does he think about competition by another airline or by other airlines having regard to the increased cost of these new aircraft, and having regard to density of traffic for instance? Surely there would be no objection to that type of discussion.

The CHAIRMAN: This might be desirable and interesting from your point of view but I do not think it would be fair to Mr. McGregor as president of T.C.A. to put him on the spot as to his opinions of competition.

Mr. SMITH (*Calgary South*): There is, in Mr. McGregor's own words, his opinion expressed in the brief to the royal commission which dealt with this subject rather extensively. I am sure this would be of interest to those who have not seen it.

The CHAIRMAN: This subject does not come within this committee's review.

Mr. SMITH (*Calgary South*): I agree with that statement but I am suggesting that if members wish to know what Mr. McGregor's opinion is, it is contained in this brief.

Mr. CHEVRIER: I am not going to put anyone on the spot, least of all Mr. McGregor; but it is a silly decision, with all the respect I owe the chair, to consider the operations of T.C.A. and not to discuss competition. If it is the decision, I abide by it.

Mr. HEES: I do not think there is any desire to limit the members of the committee in the expression of their ideas in respect to competition. As Mr. Smith said, Mr. McGregor's views as to competition were expressed a long time ago and before there was any thought of the hearings which will take place quite shortly. But in view of the fact that there is a hearing pending dealing with this whole matter I think it is not right that Mr. McGregor should be cross-questioned on his ideas about competition having to do with specific routes, or in general. His general ideas are available there for anyone to read. I think it is much more appropriate to proceed with the examination of the operations of T.C.A.

Mr. CHOWN: I think that the minister is absolutely right.

I would like to ask the president of T.C.A. about the interchange which took place in Winnipeg over the removal of the maintenance facilities there in reference to these new aircraft which are coming into operation in 1960 and 1961. Do you intend to retain a general residual there in Winnipeg?

Mr. MCGREGOR: I made an announcement to the personnel of T.C.A. at Winnipeg last year when the decision was taken to locate the maintenance and overhaul people who would look after the Vanguard and DC-8 aircraft at Montreal and I informed them that it was not the intention to move any of the facilities or the personnel out of Winnipeg with the exception of three or four small groups. They were dealing with aircraft such as the North Star, DC-3 and Viscount, and it was foreseen that the growth of the Viscount fleet would off-set the reduction in work represented by the retirement of the DC-3's and the eventual retirement of the North Stars.

I also advised them it was the intention to leave the Viscount operation, which will eventually number 51 aircraft, in Winnipeg, and that the aircraft will continue to be overhauled there through 1965.

Mr. BROOME: Could Mr. McGregor supply to the committee figures as to the yearly earnings per employee? Does a T.C.A. employee earn \$8,000 for the company, or \$10,000, \$15,000, \$18,000 or whatever it might be as compared to employees in half a dozen leading airlines in North America? That would give us a key to the staff as compared to company earnings in the way of sales. Do you understand what I mean?

The CHAIRMAN: You mean employee productivity?

Mr. BROOME: Yes.

Mr. MCGREGOR: I suggest it does not give you a key because of the rather unusual financing of T.C.A. Last year the company earned \$400 thousand-odd on \$100 million gross which is obviously dangerously small but, on the other hand, T.C.A. is so financed that nearly all of its capital is in the form of debentures and therefore that figure represents net earnings after the interest has been paid, on nearly all the capital.

All other airlines of which I know are financed in almost exactly the opposite manner with a substantial amount of capital stock and equipment trusts and the interest charges on the relatively small amount of debt capital would be much less than in the case of an airline financed basically by bonds and debentures with only a small proportion in stock.

The CHAIRMAN: If you figured it on the basis of \$400,000, and 10,000 employees, the productivity would be \$40 apiece.

Mr. BROOME: I do not think Mr. McGregor understood my question. My question would reflect, at the start, on the profit of the company, but what my question was is this: what is the number of the employees compared to revenue of the company of the T.C.A. as compared to other ones in other countries, to see whether or not T.C.A. is over-stocked? Is T.C.A. operating as efficiently as other airlines? I think that is one method of comparing airline operations.

Mr. MCGREGOR: I would like to submit that that has been attempted before. One of the methods used is to take the number of employees and divide it into units of transportation. That is probably a little better than comparing it against net or gross profits, but that again is no measure of a comparison between one airline and another.

A very large British airline, for instance, has nearly all its engine overhaul work done by other companies. Obviously no comparison of number of employees against volume of work produced is valid unless the companies being compared have adopted the same policy with respect to having work done by outside contractors.

Mr. BROOME: Then how do we compare the efficiency of the T.C.A. with other airlines?

Mr. MCGREGOR: There are several ways. The amount of production I would expect, in dollars and cents, in the case of the T.C.A. in relation to other airlines is a satisfactory method.

I can give you the figures of the net losses achieved by other airlines for the first three months of this year.

Mr. FRASER: Just the losses?

Mr. MCGREGOR: There are profits, but not too many. American Air Lines had a profit of \$1,950,000 for the first quarter of 1958 as against \$2,165,000 for the first quarter of 1957. B.N.F. Air Lines had a profit of \$667,000 for the first quarter of 1958 as against \$627,000 for the first quarter of 1957. C.A.P. Air Lines had a loss of \$670,000 as against a loss of \$992,000. Eastern Air Lines has a profit of \$5,500,000 as against \$8,016,000. National Air Lines has a profit of \$1,323,000 as against \$3,125,000. North East Air Lines has a loss of \$1,351,000 as against a loss of \$843,000. North West Air Lines has a loss of \$1,900,000 as against a loss of \$1,300,000. Pan American has a loss of \$7,407,000 as against a loss of \$2,138,000. T.W.A. has a loss of \$10,167,000 as against a loss of \$7,292,000. U.A.L. Air Lines has a loss of \$578,000 as against a loss of \$1,586,000.

Mr. CHEVRIER: Are the American airlines subsidized by the American government?

Mr. MCGREGOR: In some cases, yes, and in others, no. In the case of the four major carriers I believe there is no subsidy figure included in the figures I gave you. That is decided at the end of the year. At one time, you will remember, a subsidy was paid in the form of mail pay. More recently mail pay was calculated to cover costs and a reasonable amount of profit for the carriage of mail, and any company which ended the year with a financial deficit was paid a subsidy earmarked as such.

Mr. SMITH (*Calgary South*): Recently at a meeting of various airlines, they made it quite clear that the reduction of net income was due to a very large capital cost of operation which has grown as we have seen in a number of other businesses. But, I notice in your statement that part of the \$1 million of reduced total net income can be shown in the income from operation of T.C.A., and I think it is something like \$765 thousand-odd. Is that of any particular significance this year in the operation of the airline? Otherwise is there any particular reason you can amplify other than your one reference to it in the statement?

Mr. MCGREGOR: That is dealt with at page 6 of the annual report. First of all your analysis is quite correct. But the answer to your question is, as I mentioned, the costs of the ingredients of the product are going up steadily, particularly labour. I have also mentioned fuel and landing fees as being significant. The company was faced with respect to its operating budget in 1957 with over a million dollars of unforeseen expenses which were not included in the budget calculation and were completely outside the control of the company, these were the rise in the cost of fuel and landing fees and the two cents a gallon tax on gasoline boarded in Ontario.

Mr. BROOME: What was the extra cost in regard to landing fees?

Mr. MCGREGOR: The cost of landing a DC-3 at Canadian airports rose from \$3.30 in 1956 to \$5.40 in 1957. I can give you the percentage increase if you wish.

Mr. BROOME: What would that mean in thousands of dollars per year extra cost for the same number of landings?

Mr. MCGREGOR: \$145,000. That is for a six-month period when the increase of rate was in effect. It would be close to \$300,000 over an annual period. The same applies to other aircraft, but the DC-3 had the largest percentage increase.

Mr. CHEVRIER: You mentioned something about the cost of labour; what about the cost of aircraft, is that a contributing factor to your financial position?

Mr. MCGREGOR: Yes, in two different ways; first of all the higher investment in the aircraft increases the interest cost and we are replacing obsolescent aircraft with modern equipment, such as the Viscounts at the present time. These new aircraft come under depreciation whereas the aircraft they are replacing, the DC-3's and the North Stars have been fully depreciated down to their residual value for some years. In acquiring new aircraft we confront ourselves with both increased interest charges and depreciation.

Mr. SMITH (*Calgary South*): Your cost of operation through purchase of new aircraft is much more efficient.

Mr. MCGREGOR: Yes, very much.

Mr. CARTER: What would be the biggest item in your \$24 million of operating expenses? It is still a pretty large percentage of your total.

Mr. MCGREGOR: That is mostly due to the type of flying done. You see we increased the capacity of the airline by 20 per cent the expenses went up by 16 per cent.

Mr. CARTER: You set out salary and wages, fuel and oil, maintenance materials, depreciation, and then you say, "all other". "All other" is \$24 million as against \$11 million for maintenance. What would be your largest item in that \$24 million?

Mr. MCGREGOR: "All other" is made up of rentals and utilities, that is telephone, light and services of that kind. That is up 16 per cent, and represents \$7 million. "Other services and expenses", \$3,400,000; that is up 8.3 per cent. Service to company personnel is \$3 million, up 12.3 per cent.

Mr. BROOME: What does that mean?

Mr. MCGREGOR: Travelling expenses primarily.

Mr. BROOME: \$3 million for travelling? Do they not travel T.C.A.?

Mr. MCGREGOR: Yes, but they have to stay at hotels when they get there, and it includes the movement of personnel on transfers and a large proportion is movement of crews which are going out to pick up a flight or coming back from completing a flight.

Mr. FRASER: Would that include the hotel expenses where you have a layover and have to look after the passengers?

Mr. MCGREGOR: Yes, but not company personnel.

Mr. FRASER: No, but passengers would come out of "all other"?

Mr. MCGREGOR: Yes.

Mr. FISHER: Have you a division of what you receive through tourist fares and first-class fares?

Mr. GORDON: Yes.

Mr. CHEVRIER: How many categories are there?

Mr. MCGREGOR: There are two domestic and four, I regret to say, on the trans-Atlantic.

Mr. CHEVRIER: Why do you say you regret it?

Mr. MCGREGOR: Four is too many. It complicates the handling and it is confusing to the passenger. It is a matter that has been regulated by the International Air Transport Association and this particular regulation will I think be modified at the next traffic conference.

Mr. CHEVRIER: Is that the economy, tourist, first-class and deluxe?

Mr. MCGREGOR: Yes, economy, tourist, first-class and deluxe, and in some carriers there is a fifth category if you buy a berth.

Mr. CHEVRIER: Has that been in operation for just a year?

Mr. MCGREGOR: Since last April. I will now answer the question about the proportion. North American first-class produces \$58,700,000 and tourist \$11,900,000. From overseas first-class we produce \$3,114,000 and tourist \$12,732,000.

Mr. FISHER: Why the tremendous difference there in ratio between the trans-Atlantic and the others?

Mr. MCGREGOR: Well, the demand on the trans-Atlantic due I think to the higher price of the ticket is primarily very much in favour of the lower categories of service.

Mr. FISHER: Has that anything to do with the fact you do not offer as wide a tourist service on the domestic lines?

Mr. MCGREGOR: No, I do not think so.

Mr. FISHER: I am interested in the line going into Fort William; in most cases it is a tourist fare in there.

Mr. MCGREGOR: First-class.

Mr. CHEVRIER: Which is the most profitable part of your operations?

Mr. MCGREGOR: The trans-Atlantic.

Mr. CHEVRIER: How do you divide them up? Would you tell us what the four or five divisions of your operations are and how they fare financially?

Mr. MCGREGOR: Yes. There are only two main divisions. That is what we call the domestic operation which includes the Canadian and trans-border operations to the United States and the other major division the overseas section which includes the trans-Atlantic and the Bermuda, Caribbean, and Florida services. Of the two, the overseas operation is the more profitable. The rate per mile on trans-Atlantic, for instance, is in the order of 7.45 cents per passenger mile, whereas in the domestic operation the average is 6.14 cent.

Mr. BROOME: Could you indicate whether your picture is showing any improvement this year over last or is that a question that should not be asked? I am referring to the first quarter.

Mr. MCGREGOR: No, the picture this year is worse than last year for the first quarter and for that matter for the first half.

What is happening is that as the total volume of air transportation increases, this very heavy seasonable fluctuation between winter and summer tends to increase.

By the same token, the net profit for the month of June was the highest in our history. So I think that the overall results for the year may be in the same order as was the case in 1957. However, the extremes of off season loss and on season profit are increasing in magnitude.

Mr. BROOME: Is it fair to say that T.C.A. does have an advantage in its lower financing costs, and this must surely be reflected in a fairly good statement because you do pay less for your money?

Mr. MCGREGOR: I do not know that we do. We pay over four per cent for our money.

Mr. BROOME: I do not know of many private firms that get it for four per cent.

Mr. SMITH (*Simcoe North*): Referring to the first class and tourist fares on short hauls, would there be any appreciable difference, for example, if there were a tourist service between Ottawa and Toronto? Would the fare be substantially lower?

Mr. MCGREGOR: Yes, it would be. The relationship between the two is about 20 per cent.

Mr. SMITH (*Simcoe North*): Even on a short haul?

Mr. FISHER: Isn't that enough of an incentive to create more users?

Mr. MCGREGOR: It does not seem to be. We operate a tourist service between Montreal and Toronto which is slightly longer than between Ottawa and Toronto, but the proportion of people who request tourist service is about in the order of 18 to 20 per cent.

Mr. BROOME: Is that not significant? The reason for it is that for people who are inclined to go airborne with air services, there is a considerable difference in income. I refer to those who take airline service and the difference in the cost for lower or cheaper forms of transportation. If they wish to go by air, they prefer to go with first class service.

Mr. MCGREGOR: I think that is right; 20 per cent, of a long-haul ticket represents a substantial saving but people do not pay much attention to the small actual discount it represents on a short journey and they like being given a meal and the other amenities of first class.

Mr. SMITH (*Calgary South*): I do not think anyone would question that, and as a good commercial pilot I agree that your line is one of the finest.

I am sure you are aware, however, that there has been considerable criticism of what we might call the ground practice, such as ticketing, the dispatching and so on.

Some of it may be justifiable and some not. I wonder what your airline has done with reference to making such a survey as it can to improve this situation, assuming that a good proportion of the criticism is legitimate?

I know of certain areas where you have improved your dispatching and ticketing; but when a passenger does not know that there is going to be a flight and then finds that there is one, for instance, and he is not given an indication that the flight was available, there is resentment.

Would you care to comment on the public relations of your airline and how they could be improved?

Mr. MCGREGOR: I would like very much to talk on that subject because we have probably spent more money on this particular phase of our operation than most airlines. However, that is one of the things that a service organization in our opinion should stress very strongly.

I think I should begin by saying that this business about once again: "T.C.A. is wonderful in the air, but it stinks on the ground," is said of every airline, mostly by the nationals of the carrier referred to who travel over it.

I have spoken with the administration of the larger American airlines and I find that the phrase is a standard one. The reason for it, of course, is that when the passenger gets into a difficulty in connection with air transportation he is confronted by the man behind the counter or by the girl behind the telephone.

Because the difficulty, as in the case of the tough steak and the waiter in the restaurant, is always brought home to him by an individual who has had nothing to do with it—such as to advise him that a flight is delayed, whereas the actual cause of the trouble in probably 99 cases out of 100 as nothing to do with the clerk who is in contact with the traveller or with the potential traveller.

But to get back more to your question; we carry on two complete surveys a year, one in the winter-time and one in the summer, with questionnaires which are sent out to a random selection of about 1500 passenger names and addresses which appear on our reservation lists as having travelled during the previous two months.

The answers to those questionnaires—they cover everything from food to handling of baggage and reservations, irregular operations, flight information, schedules and all other facilities—are tabulated both against the previous survey of the year before and the whole string of surveys which have now gone on for five years.

In addition we have comment cards installed in the aircraft for any comments from passengers.

You might be interested in the figures for the number of passengers carried in relation to the commendations we have received and the complaints.

In 1957 we carried 2,390,000 passengers and we received commendations from 5,250 people, or 2.2 commendations per thousand passengers carried.

We received 3,797 complaints or 1.6 complaints per thousand passengers carried.

These figures compare with 1956, if you are interested, when the total carried was 2,066,000 from which we received 5,020 or 2.4 commendations per thousand passengers as against 2.2 in 1957, and similarly we received 3,579 complaints or 1.7 per thousand passengers, so that the ratio of commendations to complaints is better than 5 to 4.

I think it is also true to say that people are a little bit more prone perhaps in the heat of the moment to complain then they are to busy themselves in sitting down and writing a letter of commendation.

Mr. SMITH (*Calgary South*): I said that some were justifiable and some were not. I think you will accept the idea that there is still room for improvement.

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): Is it not possible that 80 per cent of the complaints are caused by lack of information rather than by too much information, where the public is not informed? Is there any survey being carried on in that respect?

Mr. MCGREGOR: It is a continuous one; it is part of the survey to which I referred.

Also we use a system which has been developed, I think to a fine point by most of the Bell system telephone companies. It is what we call an index measurement. Under that system each month's phase of the operation is subject to a weighted index or measurement, and if that index is not moving in the right direction, an investigation is carried on at once to find out what is adversely affecting it.

For example, the delivery time for passenger baggage at Montreal showed up badly at one time. But the speed has been revised to 5.3 minutes from something about 10 minutes.

Mr. BROOME: On the figures which Mr. McGregor gave us, the 5 to 4 ratio, that means that 44 per cent of your passengers have complaints. I take it from the way you set this out that you had 5,000.

Mr. MCGREGOR: I said 1.6 passenger per thousand had complaints.

Mr. BROOME: Doesn't that appear from the sample you sent out?

Mr. MCGREGOR: No. This is the overall result in a year.

Mr. CREAGHAN: I wonder if complaints from passengers are getting to the right source? I received two T.C.A. complaints in the last two days. Last week an aircraft with American passengers was supposed to land at St. John, New Brunswick, for customs and immigration. However, it could not land there, and it landed at Moncton.

The passengers had to wait 90 minutes for immigration inspection. They thought it was the fault of T.C.A.

I contacted customs and they blamed it on immigration. Then I contacted immigration, and both agreed it was the fault of T.C.A. that the customs and immigration were not advised about the re-routing.

One of the passengers was a nine year old girl who had never been in Canada before, and another passenger was pretty nearly a stretcher case.

Mr. MCGREGOR: Did you check with T.C.A. to find out if they had advised customs and immigration?

Mr. CREAGHAN: My last inquiry was made to the man in charge of customs for the Atlantic region and he told me that the immigration people blamed it on T.C.A. because of the re-routing.

Mr. SMITH (*Calgary South*): One of the most common complaints is that it is the duty of the captain to determine whether or not an aircraft will take off under adverse weather conditions.

Too often I have found that it was for the protection of the passengers' lives that the aircraft did not take off, yet there was no explanatory answer given. I realize you do not have a big enough staff to make known to people information of that type, so I suggest that many complaints are brought about by lack of information rather than by too much of it.

Mr. MCGREGOR: Yes, I think that is true. But on the other hand, I think we can agree that aviation has now reached a point that places it in what might be called the mass-transportation category, and I think you will agree that under those circumstances it is desirable, if possible, to tend to ease off on the extremely personalized handling of passengers, because if that should continue, when we get into 2½ million passengers a year, we are headed for real trouble.

Mr. BROOME: Are you contemplating continuing short haul flights such as from Vancouver to Victoria?

Mr. MCGREGOR: It is a workable arrangement between Vancouver and Victoria, it has been done now for the last six months, as long as the weather behaves reasonably well. But if conditions arise in which there is good weather at Vancouver and bad weather at Patricia Bay we would probably end up with three or four hundred passengers at Vancouver, wondering why they could not be taken to Victoria.

Mr. SMITH (*Calgary South*): Has T.C.A. indicated to the board whether they would like to fly a route south into the United States from Calgary to complete the triangle?

Mr. MCGREGOR: Yes, indeed, and for many other routes into the United States. Steadily over the last four years the Air Transport Board and the Minister of Transport have been endeavouring to bring the United States comparable authorities into bilateral negotiation but so far without success.

Mr. SMITH (*Calgary South*): Has T.C.A. requested it?

Mr. MCGREGOR: Yes.

Mr. CHEVRIER: What is the position with respect to the air agreement with the United States? I understand that for some time T.C.A. has been trying to get additional transport routes but without success.

Mr. HEES: We have been trying steadily to work out some exchange of routes with the United States authorities. We were able to get them to sit down and talk with us in preliminary discussions. I think that was last February, but once again these discussions seem to have faded away.

Just recently they assured us that they will sit down and resume these informal discussions.

Mr. CHEVRIER: When was the last air agreement signed between Canada and the United States?

Mr. HEES: I would not know. It certainly was a long time ago.

Mr. CHEVRIER: When is there likely to be a formal meeting with a view to amending the present agreement?

Mr. HEES: I wish I could tell you. I am trying very hard to get the two countries together in an informal way to lead up to a formal meeting.

I think you have gathered from what I have said that it seems to be a difficult thing to accomplish.

Mr. CHEVRIER: Is it possible to find out what additional routes T.C.A. would like to get, or is that an embarrassing question?

Mr. MCGREGOR: It might be prejudicial to the efforts being made.

Mr. CHEVRIER: Very well, I shall not insist.

Mr. MCGREGOR: I think the last formal amendment to the bilateral agreement was made in 1951.

Mr. FISHER: Might I ask the minister what in his opinion are the complicating factors in connection with bringing about this perfect meeting of the minds?

Mr. HEES: I would sooner not reply. But I can assure you that I am trying and that my department is trying. All I can say is, I have been trying and the Air Transport Board has been trying to get these talks going.

Mr. FISHER: I want to make the remark that we also are under pressure.

Mr. HEES: I know and appreciate it, and I feel about it the way you do. I can assure the committee that both T.C.A. and the government are most anxious to endeavour to work out reciprocal agreements for increasing air traffic between our country and other countries throughout the world. We are ready to sit down and talk with anybody who will sit down and talk with us about arriving at reciprocal arrangements.

Mr. SMITH (*Calgary South*): Any bilateral agreements then would not include any difficulty with reference to limited discussions in areas. Can a limited discussion dealing with a specific case be approved without the full formality of a complete agreement?

Mr. HEES: We are trying to get full discussions and if that is impossible, limited discussions, and I assure you we are doing our best. There is no lack of trying on our part.

Mr. SMITH (*Simcoe North*): I would ask the minister if T.C.A. or some other commercial airline were to build a north-south route would it provide additional complications for American airlines already flying those routes?

Mr. MCGREGOR: In some cases, but there are several transported routes that might be regarded as having a good potential of traffic that there is no service on at all.

Mr. HEES: And we are willing to give just as much as we get. We will take a route and give a route of equivalent benefit.

Mr. CHEVRIER: Is that not almost a matter on which the joint House of Commons and House of Representatives committee might be helpful?

Mr. HEES: I think it might.

Mr. CHEVRIER: Because this unquestionably could be added to the four points that were discussed between the two heads of state last week.

Mr. HEES: I think that is a good suggestion.

Mr. BROOME: Mr. Minister, and through you to the president—

Mr. SMITH (*Calgary South*): Bring it to the president's attention next time you play golf.

Is it a fair thing to ask, Mr. McGregor, if we have a good deal in connection with United States routes into Canada versus Canadian routes into the United States?

Mr. MCGREGOR: If you would allow me to answer the question I think at the present time we have a fairly reasonable saw-off. The popularity of the Viscount aircraft gives us a competitive advantage over our U.S. counterparts on the New York routes.

Mr. SMITH (*Calgary South*): I meant in routes.

Mr. MCGREGOR: We are carrying very many more passengers between Toronto and New York than American airlines and more passengers between Montreal and New York than Eastern Airlines.

Mr. CHEVRIER: Your answer then is yes?

Mr. MCGREGOR: Yes.

Mr. BROOME: Are you contemplating any charge for no-shows? That is the bane of airline scheduling to prevent no-shows. You are talking about mass transportation and getting millions of passengers and it would appear to me that no-shows are a contributing factor to your high costs.

Mr. MCGREGOR: In the first place I would question the high costs in relation to other airlines. But speaking of no-shows, no-shows are a problem but they are less of a problem in Canada than in the United States by a very large margin. I think that is due to the average Canadian being perhaps a little more considerate of people he is doing business with than may be the case elsewhere. The no-show penalty has been tried and abandoned and tried again, and more recently, within the last few months abandoned yet again, and the reason for it is fairly obvious. If a man presents a ticket on a flight for the previous day and for which there was no notice of cancellation and said, "I would like my money back," or "I would like to take another flight," if he is confronted with a financial penalty all he has to do—and in many cases does—is say, "Oh, I called up your office, I said I was not going on that flight, I was talking to some little girl, I don't know who she was, but I cancelled", you are then confronted with the problem of calling your potential customer a liar or giving him his money back.

The CHAIRMAN: And he won't be back?

Mr. MCGREGOR: That is right.

Mr. SMITH (*Calgary South*): I wonder if Mr. McGregor would give us a breakdown of the actual sections or divisions of T.C.A. in Canada. I think you have section lines?

Mr. MCGREGOR: Yes, we call them regions.

Mr. SMITH (*Calgary South*): Would you give us those regions?

Mr. MCGREGOR: Yes. The western region extends from the west coast as far east as and including Winnipeg, the central region from that boundary east to Montreal, and the eastern region from Montreal, to the Maritimes, and then there is the overseas region which is the operation I described before.

Mr. SMITH (*Calgary South*): Do you not have a further breakdown as between regions in which you keep your crews?

Mr. MCGREGOR: We have three crew bases. That is not to be confused with the region divisions which I described previously.

Mr. SMITH (*Calgary South*): What are these three crew bases?

Mr. MCGREGOR: Vancouver, Winnipeg, Toronto and—I am sorry there are four—Montreal.

Mr. SMITH (*Calgary South*): Was Winnipeg recently just established in preference to another city?

Mr. MCGREGOR: No, I think Winnipeg has been a crew base for a long time. I think there was a consolidation in Winnipeg, fairly recently.

Mr. CARTER: Mr. Chairman, I have a few questions but while we are on this international thing may I ask if any consideration has been given to improving the service flights to Sault Ste. Marie? At the present time you have to go to Toronto and wait a long time.

Mr. MCGREGOR: The reason for that is that we use a United States army airport on the south side of the border at Sault Ste. Marie and they recently closed it to Viscount service while they carried on a runway expansion program. The situation will be cured, we are assured, in November.

Mr. CARTER: And what is the situation in respect to Kinross? Will that airport be able to carry that flight?

Mr. MCGREGOR: Yes, and I believe the Department of Transport have some work going on in that area.

Mr. CHEVRIER: Are we still paying the capital expenditure on the operation at Kinross?

Mr. HEES: I am afraid I do not know.

Mr. FISHER: Can the president file a tabulation of the number of passengers lifted at the various points across the country?

You did in 1956 and I would like to have it on the record.

Mr. MCGREGOR: The number of passengers boarded by points?

Mr. FISHER: Yes.

Mr. MCGREGOR: We can do it, but I do not think it has ever been submitted as part of this report.

Mr. FISHER: In 1956 it is in the record.

The CHAIRMAN: You are still dealing with service, I presume?

Mr. SMITH (*Calgary South*): I would like to ask one more question on service.

On one flight in your constellations you showed, or did show—I may be wrong, it may be out of print—that the passengers were assisted by a steward and two stewardesses. I believe in actual fact that that is not so, that you have been carrying a stewardess and a steward.

The information I have is that the crews find they are awfully busy with the size of the aircraft.

Mr. MCGREGOR: You are speaking of trans-continental?

Mr. SMITH (*Calgary South*): Yes, of flight eight, as a matter of fact in the Super Constellations.

Mr. MCGREGOR: Mr. Seagrim would you like to comment on this?

Mr. H. W. SEAGRIM (*Vice-president of operations, Trans Canada Air Lines*): We did operate a three person cabin crew on Super Constellations for quite a period of time and we found—I think as a matter of fact all the flights were not busy enough, and when we investigated the situation as to what other airlines were doing on a similar type of trans-continental operation and similar type of aircraft, we found a two-person crew was standard, practically an industry standard.

We reverted to that on the understanding that some are kept quite busy but the average flight not.

Mr. SMITH (*Calgary South*): While we are on the subject of stewardesses, do you find that the lowering of the standard of your service in which your stewardesses are not R.N.'s is still maintaining the proper standard in the service?

Mr. MCGREGOR: Yes.

Mr. CARTER: May I ask about how the Viscount flight is working out to Torbay? If I remember in a former committee I think you said that it was not quite feasible because of the length of flight possibly.

Mr. MCGREGOR: We have been worrying about the regularity of the Torbay flight. It started, as you know, late this spring and so far it has done well under summer conditions and we are very much hoping it will continue to, but as I pointed out to you the range limit of the Viscount is not sufficient to start it off on a flight to Torbay under doubt weather conditions have it arrive there and find the airport is below weather limits and have sufficient remaining fuel to return to the mainland.

Mr. SMITH (*Calgary South*): You have reduced the status of stewardesses so it is not necessary to be a registered nurse, but I think you also employ on your staff a fairly large number of non-Canadian citizens. I would like to know the number of non-Canadian citizens you are employing. There are a number of foreign girls who are acting as stewardesses.

Mr. MCGREGOR: We have several English girls.

Mr. SMITH (*Calgary South*): I was not referring to English specifically.

Mr. MCGREGOR: We have employed legitimate immigrants to Canada wherever they met the requirements.

Mr. SMITH (*Calgary South*): Canadian citizens?

Mr. MCGREGOR: Yes, or in the process of becoming Canadian citizens.

Mr. PASCOE: Mr. Chairman, I would like to ask Mr. McGregor a few questions in regard to Saskatchewan. Two cities out there, Regina and Moose Jaw, 40 miles apart, Regina has poor T.C.A. service and Moose Jaw none. Is the fact that they are 40 miles apart, does that preclude the possibility of T.C.A. service?

Mr. MCGREGOR: It is not that, we have other flights to other cities where we fly equally short distances.

The primary reason is that the company's plans call for the implementation of aircraft requiring pretty long runways and it was obviously going to be extremely expensive to have viscount-type runways in all these places. You will know similar points that have service such as Moose Jaw, Medicine Hat, where due to the empire air training plan they had airports that would otherwise probably not have been constructed.

Mr. PASCOE: We have a large airport near there. I wonder would that provide us with service?

Mr. MCGREGOR: I am not sure the airport could use Viscounts.

Mr. SEAGRIM: No, I do not think so. There is may be one runway suitable for Viscount operation.

Mr. KENNEDY: I would like to ask for some advice. This is in connection with the maritime region. Down there, to meet a flight, for instance, when you have somebody arriving and you may have to drive 70 or 80 miles to the airport, in the meantime the flight gets mixed up with weather and that effects it in two ways. It may be diverted to any airport like Greenwood 100 miles from Halifax or also if the weather is more foul it is put off.

You get to Halifax and the fellow that was leaving has not left, and he gets there and he says: "What the hell is going on"?

The CHAIRMAN: Drive 100 miles to another place.

Mr. KENNEDY: I had an actual experience. I phoned the airport and asked them to page a fellow who was waiting and had gone from Montreal but his flight was delayed until late. They never contacted him. He had been meeting a flight at 2.30 and the fellow he was meeting had not actually got on the plane at Montreal.

Mr. MCGREGOR: Any sea coast area is subject to very sudden weather changes and I can understand your friend being disgruntled at the inconvenience which he experienced.

Mr. KENNEDY: Is there no way a passenger list could be dispatched to the terminal and then the terminal will know what passengers are on that flight and know where they are going?

Mr. MCGREGOR: That is normally done and why it was not possible to get in touch with him I do not know unless he left the passenger waiting room. That is a condition we hope will improve at Halifax with the new airport, but it is not easy to remedy it at Dartmouth.

Mr. SMITH (*Calgary South*): The point I had with regard to stewardesses, non-Canadian stewardesses, I understand you are recruiting people for T.C.A. services.

Does that indicate that even though you reduced the qualifications of those who were eligible to become stewardesses that you are running short of the number of people who are capable of being stewardesses?

Mr. MCGREGOR: I would not say we are carrying on any active recruiting of non-Canadian, but we are glad to get people for air service, either stewards or stewardesses who are multi-lingual. As you know the Europeans tend to be very much more multi-lingual than Canadian.

Mr. FRASER: May I ask a question? I asked Mr. McGregor some time ago regarding the Chicago station. Have you done any improving there? I have not been in there for over six months, but six months ago it was not very good.

Mr. MCGREGOR: I think you will find it is cleaner.

Mr. FRASER: That would be some improvement. It was certainly very dirty.

Mr. MCGREGOR: As you know an airline is just a tenant in terminal buildings and while we can criticize we cannot insist on renovations, but I think you will find conditions have substantially improved when you next visit Chicago.

Mr. FRASER: I think you should have somebody on your desk instead of having to ring a bell.

Mr. MCGREGOR: I think we have somebody on the desk all the time now. We have eight flights daily in there.

Mr. FRASER: Well, I have not been there for the past six months. There was no one on the desk then.

Mr. FISHER: In connection with this table that I asked for that was filed two years ago as appendix E, boarding passengers in Canada, I think it is too technical, and would not be capable of being reproduced in the record, and I wonder if you could arrange for something in less detail.

Mr. MCGREGOR: We will certainly do that.

Mr. MITCHELL: I wonder if I can ask Mr. McGregor if there has been any consideration given to Sudbury being used as a port of call in services from Sudbury from Montreal or Sudbury to the head of the lakes or even further west. At present to go through to Winnipeg we must go to Toronto and then to Winnipeg and the same when we go to Ottawa or Montreal, we have to detour in each case for these two cities.

Viscount service has been inaugurated in Sudbury now and I am wondering if you have any chance to say that if the traffic is good from Sudbury, either east or west, that a flight from Toronto to Winnipeg west, would warrant dropping down to pick passengers up or disembark passengers.

Mr. MCGREGOR: We keep records of all requested traffic and carried traffic, and that is the sort of record that produced the commencement last year of the service between Ottawa, Windsor and Winnipeg and presumably if the traffic at Sudbury is sufficient that sort of an operation would be supplied to Sudbury or any other point.

Mr. MITCHELL: In other words you are studying the traffic there to see if it could be feasible?

Mr. MCGREGOR: We do at all points in the system, yes.

Mr. SMITH (*Calgary South*): May I ask a question supplementary to that?

Before scheduling each year in which you determine the time, routes, and location of flight areas, is any consideration given to a situation which we experience in Alberta, where T.C.A. is consistently late in meeting the Western Air Lines which carry traffic to Lethbridge and has consistently left passengers stranded in Lethbridge en route to Calgary. Is there any coordination in your schedules?

Mr. MCGREGOR: There is no coordination between T.C.A. and Western Air Lines.

Mr. SMITH (*Calgary South*): Why?

Mr. MCGREGOR: Because they are deliberately evading coordination of timetables and have for the past five years. The reason might be that they think it improves their chances of getting into Calgary.

Mr. CARTER: In the president's opinion does he think it might be feasible to put in a non-stop flight from Montreal to St. John's, Newfoundland?

Mr. MCGREGOR: I would not like to venture a guess.

The CHAIRMAN: Are there any other questions?

Mr. BROOME: On a question that is rather dear to my heart, could the president file with the committee a summary of passes issued during the past year?

The CHAIRMAN: To members of parliament, you mean.

Mr. CARTER: No, passes classified by categories.

Mr. MCGREGOR: I can read it into the record or file it.

The CHAIRMAN: I think it would be agreeable if you filed it.

Mr. FISHER: Supplementary to that question, we know from the minister's statement to the house he had a report from T.C.A. on the question of passes for members of parliament. Could the minister give the president permission to let us know what the substance of that report is.

Mr. HEES: I will be very glad to give it to you again. I simply asked the president to let me know what it would cost to transport every member of parliament from Ottawa to the nearest airport in their riding and back to Ottawa.

The CHAIRMAN: Every week.

Mr. HEES: This is just for one trip. The cost per round trip is approximately \$25,000, if you take every member of parliament. The other question was to find out what it would cost for these members of parliament who live farther away from Ottawa than 400 miles and who were given the privilege. It only cut down the cost by \$3,000. The cost to send all members of parliament living farther away than 400 miles and back again would cost \$22,000 per trip.

Mr. SMITH (*Calgary South*): Did you make the same survey for 1,000 miles or more?

Mr. HEES: No. It is surprising how little the saving is.

Mr. BROOME: What would the cost be for 1,000 miles or more?

Mr. HEES: Well the more you look into it the more impossible it would be to set an arbitrary dividing line. Everybody just under the dividing line would be up in arms and would have all sorts of justifications as to why they needed the service more than the member who is a greater distance away.

Mr. FISHER: Could the president comment on the efficacy and the difficulties of giving members of parliament the privilege of going on T.C.A. where there was space.

Mr. MCGREGOR: Well I would like to comment on that if I have the minister's permission.

Mr. HEES: Yes.

Mr. MCGREGOR: Our own employees travel on what is called the space available basis. At least some of them do. The number is decreasing in spite of the size of the company. We did a survey some time ago and we found that of an estimated 400 employees for one week in the summer time who sought their vacation pass, 150 of them had an interruption to their flight arrangements due to deplanment. The thought that out of 400 attempted journeys by members of parliament 150 of them might be deplaned enroute, is too much for me to face.

Some Hon. MEMBERS: Hear! Hear!

Mr. HEES: He is having enough trouble with us as it is.

Mr. SMITH (*Calgary South*): A very logical answer.

Mr. SMITH (*Simcoe North*): Are there any days of the week when traffic on airways is noticeably less?

Mr. MCGREGOR: Yes, in those days the family fare plan is in effect but we are getting into dangerous ground here.

Mr. HEES: One of the interesting things Mr. McGregor pointed out to me was on this particular reference and I have explored all the suggestions with him, and that is that the time when members of parliament would want to use the planes most would be at this period of the year when they would be going home for good.

Mr. BROOME: We are allowed that anyway—going home for good. The normal session is from January to June.

Mr. HEES: I was thinking more of an extended session which might run later than usual. It has happened in the past when they have said, "I have to get home and get back". That is the time when T.C.A. is having its peak summer period and there is a chance of getting bumped off and not having an uninterrupted trip.

The CHAIRMAN: I think we should stick to services and equipment rather than free rides for ourselves.

Mr. SMITH (*Calgary South*): I realize the limitations T.C.A. has in control of this question. You have a number of airports, many of them municipal, being constructed in Canada. You have the obvious example of one in Edmonton. It is going to be 18 miles from the centre of the city. One of your problems is competition with other forms of traffic. Is there any way in which T.C.A. or for that matter the Air Transport Board can sit and make municipal and government officials realize that you are going to lose a large proportion of your traffic if we continually put our airports so completely outside an area without having regard to the time a person has to spend to get into the city again.

Mr. MCGREGOR: There are many facets of this particular problem. Certainly we always regret to see the ground time in relation to flight time going up as it tends to do with traffic congestion increasing on streets and roads. It begins to make the time saved in the air by faster aircraft, disappear because of the increase in time consumed in ground transportation. On the other hand we must be careful in advising the Department of Transport on this point to avoid the condition in which an airport located too near a civic centre is surrounded by new housing, particularly with the noise nuisance that we can look for to some degree with jet aircraft.

Mr. SMITH (*Calgary South*): That is my point. I think many municipalities today are making provision of not issuing permits in built up areas to encroach upon the area that you will require for jets. It seems to me that some job should be done to see to it that we do not lose our major city airports through this same practice.

Mr. MCGREGOR: You are perfectly right.

Mr. CHEVRIER: May I interject? The minister knows I am sure, that a zoning act was introduced to cover that point I think three, four or five years ago and I would like to know how it has worked out, particularly with reference to a city like Edmonton which is building up so fast in the adjoining area.

The CHAIRMAN: To say nothing of Calgary.

Mr. SMITH (*Calgary South*): Edmonton, the second fastest growing city in Canada.

Mr. HEES: In my experience it is working very well.

Mr. FRASER: May I ask a question of the president. Did you ever think of using "egg beaters" to carry the passengers from the city to the airport?

Mr. MCGREGOR: Yes, we have thought of it and studied the problem closely and we are still not convinced that the helicopter in its present stage of development, at least for that particular type of work, is economical.

Mr. FRASER: They are much more improved than what they were a year ago.

Mr. MCGREGOR: Yes, they are improved but the one example of this sort of service that I know a little about is the New York Airways who are operating helicopters between the three major airports of the New York metropolitan area. They are heavily subsidized and financially, I believe, having difficulties.

Mr. FRASER: Who subsidized them there?

Mr. MCGREGOR: The U.S. Government or perhaps the New York Port authority.

Mr. CHEVRIER: I wonder if we may have a word from the president on this question.

Mr. SMITH (*Simcoe North*): I have a question which follows what was asked. Has it been considered as a condition to the extension of air services that the municipalities affected revise their traffic regulations to provide quick access to and from the airport? Some of the traffic regulations taking traffic into airports seem designed deliberately to keep people away. Lots of airports cannot be moved. You have to live with them. Has it ever been discussed, if you are going to increase the services of the municipalities that they should provide better access to and from the airport?

Mr. HEES: I would say that is the responsibility of the municipality. As they expand, they know pretty well what the developments are likely to be. The municipality should make provision for this planning, I think.

Mr. CHEVRIER: The question I wanted to ask of Mr. McGregor is this. In view of the new aircraft you are purchasing in T.C.A. such as the Vanguard and the DC-6's and so on, what is going to be the position of the present air service in the large transcontinental airports of Canada? Will the runways have to be lengthened or strengthened because of these new aircraft.

Mr. MCGREGOR: In some cases yes, but more recently constructed runways are adequate.

Mr. CHEVRIER: For the Viscount I suppose the answer is that the present airstrips are adequate.

Mr. MCGREGOR: Yes, in most cases.

Mr. CHEVRIER: But what about the Vanguards and the DC-8's that you are going to purchase within the next few years.

Mr. MCGREGOR: Your remarks apply more to these. Perhaps the minister could answer that.

Mr. HEES: We need for turbo-jets a minimum strip of 9000 feet.

Mr. CHEVRIER: The airport at Uplands covers that situation.

The CHAIRMAN: It is nearly two miles.

Mr. CHEVRIER: And what about Malton and Dorval?

Mr. MCGREGOR: Dorval is being extended and the most recent runway at Malton is satisfactory. Is that right Mr. Seagrim?

Mr. SEAGRIM: Yes.

Mr. CHEVRIER: Are you contemplating the purchase of any Britannias?

Mr. MCGREGOR: No.

Mr. FRASER: Do you have to fix runways to stand that extra stress?

Mr. MCGREGOR: They have to be strengthened and lengthened.

Mr. FISHER: I have one question on service and complaints. I would like to let the president know that the constant complaint at the Lakehead against T.C.A. services is the impossibility to book flights in much of the year because there just is not the space available. I hope you will keep that in mind.

Mr. MCGREGOR: In certain months of the year?

Mr. FISHER: Yes, and that has lead to the large demand there locally for competitive airlines.

Mr. MCGREGOR: If I could have a general word there. I referred earlier to the extreme fluctuation in seasonal traffic volume. T.C.A. could so engineer its capacity as to be able to meet peak demands but we would have an extremely large deficit if we did so because neither aircraft can be put out to useful work in the off seasons nor can personnel trained to operate and maintain them be fully employed in off seasons. So it is a regrettable necessity on the part of this or any other company that they can only engineer their capacity both with respect to personnel and equipment to come as close as they can to being in a position to meet the peak demands but not to fully meet the peak demands or they are certainly in financial trouble.

The CHAIRMAN: Are there any further questions on services and growth. We will proceed to equipment and facilities.

Mr. SMITH (*Calgary South*): I have a question here, Mr. Chairman, on equipment and facilities. The equipment—by this I am speaking first of all about hangar equipment—I wonder if, as a general policy, you can indicate under what terms—perhaps there is not any general policy—it must be negotiated that you will enter into any specific municipal airport in order to provide or share on such servicing or maintenance that you may have to do. I recognize that in many areas you will only service. You will not maintain aircraft because you have maintenance areas. I am thinking of a situation where—do you have a scale or is it purely by negotiations that you come to some conclusions whether you will participate with the municipality in the financing of a hangar?

Mr. MCGREGOR: We do not have a scale. We would negotiate in that regard depending upon requirements. This would depend upon conditions such as whether an aircraft is laid over at such a point, or whether it is desirable for one reason or another to have what we call a protection aircraft located at a point. Whether or not we would participate in the use of a hangar occupied by more than one airline would depend on the airline's need for hangar accommodation at that point.

Mr. SMITH (*Calgary South*): Supposing you have a situation where you have an aircraft available in the event that an engineer—take Ottawa as an example—could only make a superficial inspection, and in the event that he found an indication of a high r.p.m. or an engine that was not running smoothly, he then must take his instruction from Montreal, which is the nearest repair base?

Mr. GOLDEN: In the case of Ottawa that is the case.

Mr. SMITH (*Calgary South*): Yes. Is it considered that you are working toward some objective where you are going to have a few more aircraft to make available in the event of this situation? You have only these aircraft spotted at three areas in Canada, is that right?

Mr. MCGREGOR: This varies depending on the types of aircraft but I think there are something like eight or nine aircraft which are designated as protection aircraft.

Mr. SMITH (*Calgary South*): There are eight or nine centres for protection aircraft?

Mr. MCGREGOR: There are perhaps three protection aircraft located at one centre, such as Montreal or Toronto.

Mr. SMITH (*Calgary South*): I am interested in the areas. Are there three areas?

Mr. MCGREGOR: For the location of protection aircraft I think that is right.

Mr. SMITH (*Calgary South*): Do you consider that is adequate in keeping with the service and time schedules?

Mr. MCGREGOR: I'm sorry there are four; Vancouver, Winnipeg, Toronto and Montreal.

Mr. SMITH (*Calgary South*): You do not consider that with the new equipment and with the advent of competition that you must face that you may have to increase that number?

Mr. MCGREGOR: I do not think so.

Mr. BROOME: You are purchasing the two Constellations in the event that you do not receive the Vanguards until 1961, I suppose?

Mr. MCGREGOR: No. We always expected to receive the Vanguards in 1961 and still do.

Mr. BROOME: That is why you purchased the Constellations?

Mr. MCGREGOR: I thought you said that was the reason for the delay.

Mr. BROOME: No, you purchased the Constellations to tide you over until the time you receive your Vanguard. The Constellation is not going to be considered in your eventual fleet, as I read your report?

Mr. MCGREGOR: No, we do not expect to be operating Super Constellations beyond 1961.

Mr. BROOME: Thank God for that!

Mr. SMITH (*Calgary South*): I do not suppose you are considering any improvements to the Constellation's kitchens, for example?

Mr. MCGREGOR: We are installing radar on Super Constellations as the report mentions. We have installed wing-tip tanks on all but one of them.

Mr. SMITH (*Calgary South*): You are not improving the kitchens of the Super Constellations. I have heard that the kitchens are all substandard.

Mr. MCGREGOR: I do not think they are substandard.

Mr. SMITH (*Calgary South*): You have only got one heating unit for coffee.

Mr. MCGREGOR: We have only one heating unit?

Mr. SMITH (*Calgary South*): You have only one heating element.

Mr. MCGREGOR: I have not heard that the coffee making capacity was inadequate.

Mr. CHEVRIER: On what runs are you going to operate the Vanguards?

Mr. MCGREGOR: We will operate the Vanguards on the two New York runs and all the transcontinental runs except the non-stops and the one-stops, and on the Caribbean service.

Mr. CHEVRIER: Does that mean that they will supersede the Viscounts on the New York run?

Mr. MCGREGOR: Yes.

Mr. CHEVRIER: What are you going to do with the Viscounts? Will you put them on shorter runs?

Mr. MCGREGOR: I do not think we will have a surplus of Viscounts at that time. We are speaking of 1961, of course. I would hope that the traffic created on the shorter runs will fully utilize that fleet.

Mr. BROOME: Will you increase the allowable passengers and baggage at that time?

Mr. MCGREGOR: I do not think so.

Mr. SMITH (*Calgary South*): Are you satisfied now, Mr. McGregor, that the air regulations so far as accident prevention is concerned in relation to the area of flight levels of your aircraft, and in regard to protection from military aircraft?

Mr. MCGREGOR: I would think in the main that the regulations are satisfactory. I would personally like to see greater segregation of military and civilian operations at airports themselves. I think that as a result of the unhappy background that the North American airlines have experienced in this matter of the near approach of two aircraft in flight that the regulations have been for the most part, suitably modified, and in certain cases, airways have been re-routed away from troublesome areas.

Airlines, of course, are unhappy about that latter approach to the problem because it increases operating cost by increasing average flight length. However, I think that great steps have been made in Canada particularly with the gradual introduction of surveillance radar.

If I must express a personal opinion on this subject I would say that I would like to see, as a basic policy, an effort to segregate civil and military operations at airports.

Mr. SMITH (*Calgary South*): I would like to ask a question of the minister.

Is there any attempt being made to see that such recommendations are being followed through where facilities are available such as ex-R.C.A.F. airports which could perhaps be allocated for private flying?

Mr. HEES: We give as much consideration as possible to such recommendations. Small private aircraft, for instance, are segregated in commercial airports. In Toronto, for instance, most of us know that the private aircraft are located at the Island airport, and so on. Wherever it is possible we keep these operations separate.

Mr. CHEVRIER: How many airports in Canada are joint civil and military operations?

Mr. HEES: I do not know.

Mr. CHEVRIER: Do you know the answer to that question, Mr. McGregor?

Mr. MCGREGOR: No, I do not know but it is a fairly large number.

Mr. CHEVRIER: How does that number compare with the number in the United States?

Mr. MCGREGOR: I think there is more segregation, in proportion.

Mr. CHEVRIER: In the United States?

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): This would apply to everything west of Montreal. It would apply to Vancouver, Calgary, Edmonton, Saskatoon, and Regina?

Mr. MCGREGOR: At the moment Montreal is also a military establishment in that the transport command is located there. This is true of Dartmouth as well.

Mr. CHEVRIER: I suppose complete segregation would involve tremendous cost?

Mr. MCGREGOR: It would be very expensive.

Mr. MITCHELL: In regard to the paragraph on personnel, Mr. McGregor, are stewardesses required to be registered nurses?

Mr. MCGREGOR: No, that qualification was abandoned last year.

Mr. CHEVRIER: In regard to the article on planning, I see that you are going to instal an overhaul and maintenance base for DC-8's and Vanguards. Will that be installed at Dorval?

Mr. MCGREGOR: Yes.

Mr. CHEVRIER: Where at Dorval?

Mr. MCGREGOR: I think its location is best described as the northwest area of that airport. It is right by Cote Vertu.

Mr. CREAGHAN: I think quite recently, Mr. McGregor, you inaugurated a new run from Toronto to Moncton, New Brunswick. I wonder if you might tell me how that run is panning out in so far as capacity load is concerned?

Mr. MCGREGOR: I do not have the load factor in regard to that flight at the moment. I could get it for you.

Mr. CREAGHAN: This was only inaugurated about a month ago, is that right?

Mr. MCGREGOR: Yes. I think this flight went into effect with the June 28 timetable.

Mr. CREAGHAN: That flight was commenced because of the new supply of Viscounts, was it?

Mr. MCGREGOR: No. The apparent volume of traffic between those two points, as in the case of Sudbury, coupled with the strong desire on the part of the airline to avoid landings wherever the through traffic is sufficient to support a non-stop flight. The benefits are better service, lower costs and a reduction in the extreme congestion which exists at most ramps at airports.

Mr. FISHER: Has the morale of the personnel been affected at all by the discussions, hints and so on of competition and possible changes in the whole set-up?

Mr. MCGREGOR: Certainly I think there is a general feeling of concern in the airline as a result of the announcements that have been made and so on. Most of the employees I think know fairly well what the financial situation would be.

Mr. SMITH (*Calgary South*): I put it to you, sir, that the concern would be in the hope that, unlike a city which only has one newspaper, a two newspaper city has certain advantages.

The CHAIRMAN: We should stop the discussion in this regard right there.

Mr. BROOME: In regard to the fares, the report states that the relationship between first class and tourist class fares have been brought to the point where they are at the same differences as they are in the United States. How do first class fares compare to American fares for equivalent mileage?

Mr. MCGREGOR: I will have to divide this answer into three parts.

Below 500 miles our rate per passenger mile for first class transportation is less than the equivalent rate for corresponding distances in the United States. For 500 miles the rates are identical, or nearly so. The rates are within 1/100 of a cent. Beyond 500 miles our rate per passenger mile is greater than the rate in the United States. The over-all picture is almost exactly the same. I believe the exact figures to 1/100 is 6.14 cents in the case of T.C.A. on North American routes.

Mr. BROOME: That is the average, you say?

Mr. MCGREGOR: Yes, that is the over-all "domestic" average,

Mr. BROOME: That is the per passenger mile rate?

Mr. MCGREGOR: Yes, and that figure includes tourist fares.

Mr. FISHER: Mr. Chairman, I asked Mr. Gordon a similar question. This question is parallel to that. Is it true, and would you comment on the general opinion that most of the airlines in the United States are in very difficult positions at the present time?

Mr. MCGREGOR: Yes, I think that is a fair comment. They have certainly represented their position as being extremely difficult. I am quite certain it is. I suppose it is true to say that part of this situation was brought on by themselves. They applied for a substantial rate increase about a year ago. In support of that increase they did not refrain from deteriorating their financial position. When their rate increase was denied, very rightly, or very naturally the sources of capital that were going to provide capital for a very substantial investment—jet aircraft, and so on—said that if the case was as bad as they made it out to be, and since the airlines did not get a rate increase, they were not going to lend them money, so the carriers were in considerably more difficulty.

Mr. CHEVRIER: Mr. McGregor, are there any example of airlines in the United States, not subsidized by the government, going into bankruptcy?

Mr. MCGREGOR: I do not think so. There have been some that come very close to that. There have been some mergers that probably avoided bankruptcy, of airlines such as in the case of Colonial Airlines.

Mr. CHEVRIER: Surely that does not apply only to United States airlines? I suppose this is true of airlines throughout the world?

Mr. MCGREGOR: Yes.

Mr. FISHER: I gather that non-scheduled operators in the United States are in great difficulty.

Mr. MCGREGOR: Two of those non-scheduled operators have gone out of business, to answer your comment.

Mr. FISHER: I have sometimes used the argument in Canada that we need more of these non-scheduled airlines. Have you any comment to make on that statement?

Mr. MCGREGOR: I do not think that we need more. In fact, as a result of the DEW line operation coming to a close in so far as construction is concerned I think the fact is that we have too many non-scheduled airlines at the moment. Several of them are in extreme financial difficulty.

The CHAIRMAN: Gentlemen, if there are no further questions in regard to the article on planning, we are now open for a motion to adopt the annual report.

Mr. SMITH (*Calgary South*): I so move the adoption of this report.

Mr. FISHER: I second that motion.

Motion agreed to.

Mr. FISHER: I would like to congratulate the chairman. On going back through the records I find that this is the fastest that the annual reports of the C.N.R. and the T.C.A. have carried in many years.

Mr. SMITH (*Calgary South*): With an assist from the weather.

Mr. HEES: We have had a very active chairman.

Mr. FISHER: I think a tribute should be paid to the change of approach.

The CHAIRMAN: I appreciate your compliments, gentlemen, but you have not mentioned the reason at all.

The reason lies in the efficiency of so many bright new members.

Mr. HEES: On that very high note, I think we should adjourn.

Mr. CHEVRIER: I must protest on that note. I was going to move the adoption but I cannot now.

EVENING SESSION

TUESDAY, July 15, 1958,
8.00 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. We still have a lot to do here. Our first order of business is the capital budget for Trans-Canada Air Lines for the year 1958.

TRANS-CANADA AIR LINES CAPITAL BUDGET—YEAR 1958

Application of Funds

Property and Equipment Budget	\$42,000,000
Re-financing Loans—	
Canadian National Railways	5,000,000
Repayment of Loans—	
Bank of Nova Scotia	5,000,000
Additional Working Capital	3,000,000
	<hr/>
	\$55,000,000

Source of Funds

Deprecation Provisions	10,000,000
	<hr/>
Loans from Canadian National Railways ...	\$45,000,000

SESSIONAL COMMITTEE

TRANS-CANADA AIR LINES

PROPERTY & EQUIPMENT BUDGET—YEAR 1958

	Projects Previously Authorized	New Projects	Total
AIRPLANES AND COMPONENTS			
Airplanes.....	\$ 23,820,000	\$ 2,800,000	\$ 26,620,000
Betterment Projects.....	370,000	2,540,000	2,910,000
Aircraft Spares.....	1,640,000	1,200,000	2,840,000
Total.....	\$ 25,830,000	\$ 6,540,000	\$ 32,370,000
GROUND FACILITIES AND COMPONENTS			
Ground Communications.....	\$ 10,000	\$ 15,000	\$ 25,000
Hangar & Shop.....	290,000	455,000	745,000
Ramp.....	55,000	160,000	215,000
Motorized Vehicles.....	135,000	530,000	665,000
Office Equipment.....	120,000	410,000	530,000
Miscellaneous Equipment.....	390,000	185,000	575,000
Total.....	\$ 1,000,000	\$ 1,755,000	\$ 2,755,000
BUILDINGS AND IMPROVEMENTS.....		\$ 6,575,000	\$ 6,575,000
CONTINGENCY FUND.....		\$ 300,000	\$ 300,000
TOTAL PROPERTY & EQUIPMENT.....	\$ 26,830,000	\$ 15,170,000	\$ 42,000,000

NOTES:—The expenditure in respect of each of the above items may exceed the amount shown by not more than 10% without further approval, provided the total expenditure on the said items does not exceed \$42,000,000.

Initial down payments shown in this Budget for aircraft, engines and buildings carry with them commitments for expenditures in subsequent years, and these commitments, together with commitments associated with previously approved Budgets, produce total committed expenditures in future years as follows:

Year	Committed Expenditures in Future Years		
	Commitments Previously Authorized	Commitments per 1958 Budget	Total Future Years' Commitments
1959	\$ 20,514,000	\$ 14,141,000	\$ 34,655,000
1960	37,890,000	—	37,890,000
1961	28,041,000	—	28,041,000
	<u>\$ 86,445,000</u>	<u>\$ 14,141,000</u>	<u>\$100,586,000</u>

Mr. BROOME: How can Canadian National Railways lend money when they are in a deficit position? I know my question is somewhat facetious.

The CHAIRMAN: You and I have to lend it to them, I guess, through our taxes.

Mr. McGregor were you not going to supply us with copies of the budget?

Mr. G. R. MCGREGOR (*President, Trans-Canada Air Lines*): I think the clerk has been supplied with several copies, and I think they have been distributed. Yes, those are the documents.

Mr. PASCOE: We all have them.

The CHAIRMAN: Have you all got them? The first page is just a summary. Are there any questions you want to ask Mr. McGregor about the first page, under aeroplanes and components, aeroplanes, betterment projects, aircraft spares?

Mr. MCGREGOR: Perhaps, while Mr. Broome's question may have been a little facetious, I should answer it.

The Canadian National Railways, as you know, submits for approval each year a Finance and Guarantee Act. The program has been in the past that as a wholly owned affiliate of the Canadian National Railways, the Canadian National Railways has, in effect, acted as bankers for the T.C.A.

Our capital requirements are made known to the Canadian National Railways and that amount is included in the Canadian National Railways Finance and Guarantee Act, and we pay the going rate of interest to the Canadian National Railways, the Government provides the funds to the Canadian National Railways for them to advance to us.

The last formal issue of that kind was at a rate of four and one quarter per cent.

Mr. BROOME: What are "betterment projects"?

The CHAIRMAN: Mr. McGregor will answer your question.

Mr. MCGREGOR: Such things as passenger announcing systems, that is, the cabin passenger system in the aircraft; fuel jettisoning systems; weather radar installations on the Super Constellations, and the Viscounts and load limit control systems, which Mr. Seagrim will explain to you if you wish.

Mr. BROOME: No. it was just for improvements to aircraft.

Mr. MCGREGOR: That is right.

Mr. FISHER: You pay no dividends on the stock which the Canadian National Railway holds?

Mr. MCGREGOR: That is right.

The CHAIRMAN: Aircraft spares. What is that?

Mr. MCGREGOR: Those are all the spare components used in the maintenance and overhaul of aircraft, including engines.

The CHAIRMAN: Ground facilities and components?

Mr. FISHER: Under "betterment projects", has that discussion or disagreement finally been cleared up in connection with whether an extra flight engineer was going to be carried on a certain type of aircraft?

Mr. MCGREGOR: No. The type of aircraft was the D.C.8, the cockpit of which has been designed so that it could be flown with or without one. The company advised the organization which was raising the point that the cockpit work load would be established after the aircraft was in commission and flying. It would then be determined whether a flight engineer would be used or not subject to any government regulations which might apply.

Mr. FISHER: So a decision has been made?

Mr. MCGREGOR: No, not until the aircraft is tested in flight.

The CHAIRMAN: Are there any other questions on airplanes, and component parts?

Then, ground facilities and components; ground communications; hangar and shop; ramp, motorized vehicles.

Mr. FISHER: This probably reveals too much ignorance, but I would like to know concerning the facilities of the Department of Transport which you use, and in connection with ground communications, if the charge which you pay at various airports is supposed to cover the contribution towards this kind of facilities?

Mr. MCGREGOR: It is a contribution. I do not think it completely offsets the cost by a large margin, but it does help somewhat. The charges are levied on all airlines using the facilities.

Mr. FISHER: The Department of Transport may be subsidizing you, but it is also done in respect to other aircraft using them?

Mr. MCGREGOR: It may be. I am not familiar with their costs.

Mr. FRASER: It says here "ramp". Is that the ramp to the airport?

Mr. MCGREGOR: That is the area in front of the terminal building. We do not do anything about that area. It is a little bit too condensed there. It refers to the vehicles which move the cargo into and out of the aircraft; the loading steps, and the towings units which are used to put the aircraft in position. It should read "ramp equipment".

Mr. FISHER: In connection with office equipment, I have been struck at the number of people who are required to handle passengers—I do not mean for your office setup—and I wondered if you had any studies under way with a view to introducing any electronic equipment which would enable you to cut down on your staff?

I was stunned when, by a quirk of circumstances, I saw a list of the employees you have at the Lakehead. It seemed to be a very high number in relation to the number of passengers handled. Are there any steps being taken to cut down on that type of personnel?

Mr. MCGREGOR: If you are talking about the reservation personnel, page 12 of the report refers to the development of an automatic reservation system which would greatly reduce the number of people who would in the future be required in the reservation offices.

It is a very unique system. As a matter of fact we are a bit proud of it. Like most things connected with aviation, it will be expensive. However, it will be adopted if it can demonstrate economy, and we are certain, it will result in the elimination of human error.

Mr. FISHER: Is that included in this office equipment here?

Mr. MCGREGOR: No.

Mr. FISHER: Well, that is looking after all offices.

Mr. MCGREGOR: Yes.

Mr. FISHER: Will there be line communication between offices?

Mr. MCGREGOR: It will be centralized and the communication will be over Canadian National Railways teletype service.

Mr. FISHER: Sort of a telex service.

Mr. MCGREGOR: Yes.

Mr. BROOME: Is that broken down still further by regional set-ups?

Mr. MCGREGOR: There will be one centralized control and that provides the reservation service with the exception of Vancouver and Victoria.

Mr. CHOWN: Mr. Chairman, we do not have the capital expenditure for 1957 on this. Shown against this particular budget it might be helpful if in

future years we had the expenditures. I know the information is here and you could probably make it up and your comptroller prepare it while other questions are being asked and we can come back to it. We can probably put them against the columns here.

Mr. MCGREGOR: I can give you the figures now. The 1957 capital budget was a total of \$27,755,000, and the actual expenditures were \$25,572,409.

Mr. CHOWN: Is that under aeroplanes and components?

Mr. MCGREGOR: That is the total capital budget for 1957.

Mr. CHOWN: I am sorry, I did not get those figures.

Mr. MCGREGOR: \$27,755,000 is the budget which was approved by the counterpart of this committee and actual expenditures of \$25,572,409.

Mr. FISHER: Your budget for motorized vehicles, both last year and this year, remains—well, I do not know whether it is fairly high, but to a neophyte it seems rather high. What are you spending that on?

Mr. MCGREGOR: The major expenditure is for ramp vehicles, loading equipment and other vehicles for air cargo, air express and so on, for fork lift trucks, to the amount of \$342,000 prototype OC 8 passenger stand \$15,000. Ground Power Units—are connected to aircraft as soon as the engines are stopped to supply electrical power to all the functions in the aircraft—\$212,000.

Mr. PASCOE: Mr. McGregor, under that list projects previously authorized, were they authorized last year or have they been completed, or what?

Mr. MCGREGOR: I beg pardon?

Mr. PASCOE: Projects previously authorized. When were they authorized?

Mr. MCGREGOR: Some of them last year, some the year before. You see aircraft are under delivery up to three and a half years after they are ordered, so when we present our budget it shows the commitment in future years that is involved in the year of payment on the original order.

Mr. PASCOE: Will some of that be expended now, some of this list?

Mr. MCGREGOR: Some of these things be expended?

Mr. PASCOE: Yes.

Mr. MCGREGOR: Expenditures previously approved with respect to 1958 are in the process of being made.

The CHAIRMAN: Any other questions? There seems to be—I might just pause here, Mr. McGregor, and give my observations, having thrown them out over the last number of years. It seems to me that one of the things where the greatest effort should be made or a greater effort should be made is in expediting the handling of packages when the planes are disembarking.

Some airports are better than others and I have noted over the years in places like New York, Chicago, Toronto, Montreal or wherever it is that there is quite a variation in the physical handling of baggage. Some places they handle baggage very rapidly. Very often in Toronto there is quite a little hold-up. Sometimes in Montreal. The other day I got off a plane in Montreal and, Mr. McGregor, I think I saw you getting off the same plane and there was quite a little hold-up, and other times at Ottawa. At other times I have gone in to New York where there is heavy traffic and it is remarkable how they do it.

I will not ask any question, but just put out the suggestion that I do think there is a need for a quicker method of handling baggage. It is quite provoking sometimes to a woman with a couple of children waiting for baggage to get in from the plane. I do not think they mind having to drive fifteen miles, but it just seems to have a great impression on the travelling public. I think every effort should be made to expedite the handling of baggage.

Mr. SMITH (*Calgary South*): Is that not quite often personnel rather than equipment? You are using the same equipment pretty well throughout Canada.

Mr. MCGREGOR: We are using the same equipment. I do not think it is a matter of personnel, it is the actual facilities at the airport. Some of them are much better equipped to handle baggage quickly than others, and also whether it is a through point or terminal point affects it. In the case of a through flight, a plane that is going on, say, such as the Montreal-Toronto flight operating through Ottawa, in that case there has to be care exercised by the baggage handling personnel in the aircraft that they do not take out at Ottawa the bags destined for Toronto or Montreal. If the particular plane has to be emptied it can be handled more quickly.

Mr. SMITH (*Calgary South*): I would presume that your raised stairway equipment is going to be sufficiently elevated to handle your new equipment. I was under some embarrassment at Vancouver getting off the Russian 104 when we had a one-foot step to get down.

Mr. MCGREGOR: This motorized passenger ramp is quite a device. It would almost take people out of a second storey, I believe.

Mr. SMITH (*Calgary South*): I must have landed on the air force side.

Mr. FISHER: Comparing your capital budget last year with this year your 1956 re-vote only totalled \$2,371,000. This year is this "projects previously authorized" the equivalent of that column last year of re-votes?

Mr. MCGREGOR: No.

Mr. FISHER: There has been a change then in your set-up?

Mr. MCGREGOR: The re-vote consists of money that was included in previous budgets, which was fully expected would be spent during that particular year and for one reason or another not spent.

In the case in point a large proportion of the re-vote is associated with the Vanguard contract. In the case of projects previously authorized that refers to a specific—well, I should begin by explaining that when we buy an aircraft like the DC-8 there is a percentage of the cost of the aircraft which is paid at the time the order is signed and then there is a schedule of payments to be made between the signing of the agreement and the actual delivery of the aircraft that "projects previously authorized" refers to that.

Item agreed to.

The CHAIRMAN: Now, office equipment. Are there any questions there? It is all under ground facilities and components. There is \$120,000 under the projects previously authorized, \$410,000 under new projects, for a total of \$530,000.

Miscellaneous equipment, that is a matter of technical management, any comments?

Item agreed to.

The CHAIRMAN: Buildings and improvements, \$6,575,000. New projects, it is the total.

Mr. CHOWN: How much to be spent in Winnipeg, Mr. Chairman?

Mr. SMITH (*Calgary South*): Could we have all the cities while you are at it?

Mr. CHOWN: I got the question in first.

Mr. MCGREGOR: If you are interested, sir, I will answer that question.

Mr. SMITH (*Calgary South*): No, just table it.

Mr. CHOWN: I will write you a letter.

Mr. MCGREGOR: We are constructing a main guard-house at Winnipeg airport.

Mr. FISHER: I had better ask for Port Arthur or the defeated Conservative candidate will be announcing it up there.

The CHAIRMAN: How are you going to table it, by location? I do not know that you need to do that right across Canada.

Mr. SMITH (*Calgary South*): Not unless it is available.

The CHAIRMAN: But do you want that table in every instance?

Mr. SMITH (*Calgary South*): I would like the one area.

Mr. HEES: I think there are only about half a dozen cities.

The CHAIRMAN: Any objection?

Mr. MCGREGOR: No, not at all.

The CHAIRMAN: I think you had better table it.

Mr. SMITH (*Calgary South*): I meant to have it tabled, I thought you were going to read it.

Mr. MCGREGOR: We will turn that over to the clerk of the committee.

The CHAIRMAN: Contingency fund, \$300,000.

Mr. FISHER: Is this your insurance liability?

Mr. FRASER: It is like an insurance, is it not?

Mr. MCGREGOR: Yes, that is in the case of an estimate being made of the cost of a project which may or may not underrun. As a matter of fact in relation to the total budget the contingency fund is small and I do not think we have ever fully used it. In the last year we undershot the budget.

Mr. FISHER: Where do you show the figures for your insurance costs, passenger and accident and that sort of thing?

Mr. MCGREGOR: Under the operating expenses at the back of the report. You understand that we self-insure the first \$1,500,000 of the larger type aircraft and the first \$1 million of the smaller ones.

Mr. FISHER: No, but I am glad to hear it.

The CHAIRMAN: Total property and equipment, \$26,830,000, projects previously authorized; new projects, \$15,170,000; making a total of \$42 million in all. That is a summary of all these costs and various expenditures.

Item agreed to.

Mr. HARDIE: Mr. Chairman, I was wondering if Mr. McGregor could give me some information, not now, he could send it to me later, I wonder if he could give me the per seat mile operating costs of each type of aircraft, the North Star, Viscount and the new DC-8 and Vanguard?

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): Could that be tabled? It would be useful information.

Mr. FRASER: And also put in the number of seats in the different craft whether it is tourist or other accommodation and so on.

Mr. MCGREGOR: There is only one complication about that, because one aircraft, the Superconstellation, has two different seating arrangements, one on the Atlantic and one domestic.

Mr. HARDIE: Give the domestic, that is what I am interested in.

Mr. MCGREGOR: What we will do is give you the operating costs per mile and the number of seats in both configurations, plus the per seat mile in both configurations.

Mr. HARDIE: You have a northern run in the province of Quebec from Quebec city to Seven Islands.

Mr. MCGREGOR: We operate through Quebec city to Seven Islands via the air force station near Chicoutimi. I do not think that is the one you were referring to. Perhaps the service through Val d'Or is the one you are referring to.

Mr. HARDIE: The farthest north point.

Mr. MCGREGOR: The farthest north point is Val d'Or.

Mr. HARDIE: I wonder if you could give me at the same time with respect to the aircraft you use on that run, the per seat mile operating cost on that run.

Mr. MCGREGOR: You would automatically get it because we use Viscounts on it now.

The CHAIRMAN: If you pass it, Mr. Hardie, you will have it printed in the report.

Mr. SMITH (*Calgary South*): I believe you are using an American advertising agency for your business. Is there any real justification for it?

Mr. MCGREGOR: Yes, we thought so. That change was made about two years ago and we felt that the Canadian agency tended to be out of touch at least in some degree with the form of advertising used in American publication. It is only used with respect to the southern end of our trans-border routes. It is a very small percentage.

Mr. FISHER: What is the name of your Canadian agency?

Mr. MCGREGOR: Cockfield Brown and Company Limited.

Mr. SMITH (*Calgary South*): Is it a continuing contract?

Mr. MCGREGOR: No. There is no contract.

Mr. SMITH (*Calgary South*): It is just hired on a no-contract basis.

Mr. MCGREGOR: That is right.

The CHAIRMAN: We would like to keep to the report. If you are through with that one, there is another paragraph which is quite important.

Mr. FISHER: What happened to the flight that they gave up—the franchise they gave up—in order to get the Seven Islands route?

Mr. MCGREGOR: You mean the Mexico service.

Mr. FISHER: Yes.

Mr. MCGREGOR: We keep an eye on the load factors. We have not been sorry.

Mr. FISHER: You have not been sorry?

Mr. MCGREGOR: No.

The CHAIRMAN: If there are no further questions on that, I would like to read the next paragraph which says "Initial down payments shown in this budget for aircraft, engines and buildings carry with them commitments for expenditures in subsequent years, and these commitments, together with commitments associated with previously approved budgets, produce total committed expenditures in future years as follows". You will notice there at the bottom of the page that for the year 1959 the total future year's commitments are \$35,655,000, and 1960, \$37,890,000, and in 1961, \$28,041,000, or over \$100 million for the next three years.

Mr. SMITH (*Calgary South*): These are commitments that you must meet in relation to the contracts you have placed and the expected equipment on which you intend to take delivery.

Mr. MCGREGOR: Yes, and the first column is already authorized and committed.

The CHAIRMAN: So that is the picture of the property and equipment budget for 1958. Are there any further comments on the over-all general picture?

Mr. BROOME: Are you going over the statement of income or anything like that. I was looking at the sales promotion expenses for 1957 of \$15 million and 1956 of \$12 million. This is part of the operating expenses statement of income on page 20 of the report.

The CHAIRMAN: I thought we had adopted the report.

Mr. BROOME: Yes we have adopted the report but there was nothing in the report referring to sales and promotion and it seems to be a pretty hefty increase of \$2½ million on sales and promotion, considering that a great part of the traffic is aircraft traffic. I wonder where the increase came.

Mr. SMITH (*Calgary South*): We would like to have an explanation.

Mr. MCGREGOR: I think I should explain the term "sales and promotion." "Sales" is a departmental name in the company and it includes all the reservations and all the passenger handling up to the ramp.

Mr. BROOME: This is operating expenses?

Mr. MCGREGOR: That is correct.

Mr. BROOME: This is not just sales promotion.

Mr. MCGREGOR: No.

The CHAIRMAN: Are there anymore questions, gentlemen?

Mr. FISHER: I take it that we can ask a question on insurance on the auditor's report.

Mr. MCGREGOR: Whichever you like.

Mr. FISHER: I just wondered how you cleared up all these suits in connection with the bad crash in British Columbia.

Mr. MCGREGOR: Of the 60 odd people who were involved I think there are about 25 or 26 that have been finalized and the remainder are under negotiation. But the company has long since been beyond any future liability because I think I explained that the company's insurance policy is self insuring with respect to the first \$1,500,000 in that type of accident, and the costs of the accident, including loss of the aircraft, has far exceeded that. So from now on any expense associated with that accident is borne by the underwriters.

Mr. FRASER: With regard to these negotiations the underwriters have to cover them.

Mr. SMITH (*Calgary South*): I wonder if I could place a final question which deals with your capital budget. The same question was placed to Mr. Gordon whose company is in a much more difficult position, showing a net loss, whereas your reduction is about \$1 million. Can we assume correctly that a large portion can be assigned to a lowering of net profits of other airlines throughout the world, otherwise a trend in costing operations as compared with that income plus, secondly, the most important factor, that is the gain which in the transitional period you are going to get through the purchase of new equipment. Is that fair?

Mr. MCGREGOR: Yes, that is fair. The company is under a lot of expense and will be under more expense in 1958 and 1959 associated with the intended use of new equipment.

Mr. SMITH (*Calgary South*): That would also be reflected in the earnings of the next year.

Mr. FISHER: The 43 per cent figure of wages has been pretty constant, has it?

Mr. MCGREGOR: Yes.

Mr. FISHER: How does that compare roughly with other airlines?

Mr. MCGREGOR: With the exception of the airlines that are going outside for a lot of their maintenance work, it is just about an industry figure. Some of them are a little bit higher.

The CHAIRMAN: Are there any other questions?

Moved by Mr. Tasse, seconded by Mr. Chown that the capital budget be concurred in.

Motion agreed to.

We now come to the auditor's report for the year ended December 31, 1957.

Mr. MCGREGOR: I would like to thank the committee, through you, Mr. Chairman, for its courtesy, and you personally for the way the committee was handled.

Mr. SMITH (*Calgary South*): Which agency prepared your report?

Mr. MCGREGOR: We prepared it ourselves.

Mr. SMITH (*Calgary South*): Thank you.

The CHAIRMAN: I might say, Mr. McGregor, before we conclude and your annual report is passed, on behalf of the committee members, that we appreciate your clear-cut presentation and thank you and your officials for giving us such splendid answers to all the questions and queries that have been put before you. We appreciate the orderly style in which you have presented your report, generally.

Gentlemen we need a motion that the outstanding answers be printed.

Mr. FRASER: I will move that, Mr. Chairman.

Mr. CARTER: I will second that motion.

The CHAIRMAN: It has been moved by Mr. Fraser and seconded by Mr. Carter that the outstanding answers be printed.

We have the auditors' report, gentlemen. This report has been prepared by George A. Touche & Co. This company has had quite a bit of experience in this sort of thing. I think they are a very reputable firm. I do not know that you need doubt this report.

Mr. FISHER: I will move that this auditors' report be adopted.

Mr. SMITH (*Calgary South*): I will second that motion.

The CHAIRMAN: It has been moved by Mr. Fisher and seconded by Mr. Smith (*Calgary South*) that the auditors' report be adopted.

If there are any questions with regard to this report we have Mr. Wilson and Mr. Beech here to answer them.

Mr. FISHER: Has the Auditor General any relationship in an advisory way or in any way at all with auditing firms that deal with crown corporations like this?

Mr. WILSON: No, we are an independent auditing firm appointed by Parliament and we carry out our audit independently of anyone else.

Mr. SMITH (*Simcoe North*): Does the Auditor General check your auditing practices?

The CHAIRMAN: Is this audit subject to the Auditor General's approval if he so wishes?

Mr. WILSON: No, it is not. That is not provided for under the act.

The CHAIRMAN: Gentlemen, I think whether you have questions to ask or not I should, on your behalf, thank Mr. Wilson and Mr. Beech, the representatives of the George A. Touche & Co. for being here ready to answer your questions. These gentlemen have come here prepared to answer any questions that might be asked of them.

Mr. SMITH (*Simcoe North*): What is the reason for the change in the accelerated write-off against one of the types of aircraft which has been dropped this year? Could you tell us what the reason behind this practice is?

Mr. WILSON: Last year as we pointed out in our report of this year, there was a special provision in the amount of \$1,200,000 in regard to Constellation aircraft in order to catch up on anticipated requirements for accumulated depreciation. That procedure was not repeated this year.

We drew attention to this fact in our report because it was in our opinion, a change in what we considered consistency. The reason behind this was a management decision.

In management making that decision there is quite a problem involved. In deciding the amount to be written off, consideration must be given to the amount of the estimated residual value, and no one is in a position to know accurately what the aircraft will be worth at the time of their retirement. We called attention to it, but we have no other comment because no one can say now just how much that write-off should be.

Mr. MCGREGOR: I wonder if I could add a word to Mr. Wilson's reference to the fact that this was a management decision. Perhaps I should elucidate a little bit in that regard.

It was originally a long-range plan of the company to retire Super Constellations before North Stars, and to retire Super Constellations in 1960 with the delivery and placing in service of the DC-8's, and to retire the North Stars in 1961 on delivery of the Vanguards. We have taken delivery of Super Constellations annually since 1954. We had the situation where the Super Constellations which had been delivered earlier were very much further along their depreciation life than the ones that had been delivered more recently. In 1956 we had the special accelerated depreciation of \$1,200,000, as Mr. Wilson has mentioned, on the more recently delivered Super Constellations.

Later in our planning we came to the conclusion that it would be wiser to reverse the original plan and to retire the North Stars before the Super Constellations, the latter being the more modern type.

Mr. SMITH (*Calgary South*): I move we adjourn.

The CHAIRMAN: Before I accept Mr. Smith's (*Calgary South*) motion to adjourn I would like to thank Mr. McGregor and his associates, and also Mr. Wilson and Mr. Beech for being here with us. On your behalf I would also like to thank the minister for his evident interest in the meetings of this committee. He has spent a good deal of time yesterday and today in helping us along in our considerations.

Mr. FRASER: Mr. Chairman, I think we should also thank you for your work in carrying out your work as chairman of this committee.

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Canadian Railways, Air Lines and
Shipping, Second Session
on, 1959

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959

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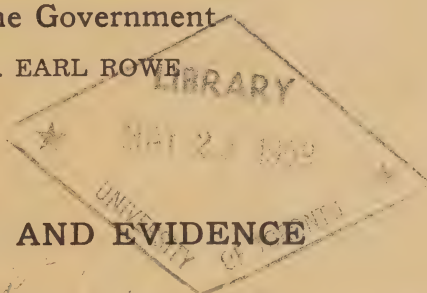
SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE



MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

[Including First Report to the House]

MONDAY, MAY 4, 1959

TUESDAY, MAY 5, 1959

Canadian National Railways Annual Report (1958).

WITNESSES:

Mr. Donald Gordon, C.M.G., Mr. S. F. Dingle and Mr. J. L. Toole of the
Canadian National Railways.

(Proceedings relating to Trans-Canada Air Lines appear in Issue No. 3)

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

SESSIONAL COMMITTEE
ON
RAILWAYS, AIR LINES AND SHIPPING

Owned and controlled by the Government.

Chairman: Hon. W. Earl Rowe

Vice-Chairman: Yvon R. Tassé
and Messrs.

Badanai
Bourbonnais
Brassard (*Lapointe*)
Broome
Carter
Chevrier
Chown
Creaghan
Drysdale

Fisher
Fraser
Granger
Grills
Horner
(*Jasper-Edson*)
Kennedy
Martini
McPhillips

McWilliam
Mitchell
Monteith (*Verdun*)
Pascoe
Robinson
Smallwood
Smith (*Simcoe North*)

Antonio Plouffe,
Assistant Chief Clerk of Committees.

REPORT TO THE HOUSE

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, has the honour to present its

FIRST REPORT

Your Committee recommends:

1. That its quorum be set at 10 members.
2. That it be empowered to sit while the House is sitting.
3. That it be authorized to print, from day to day, 1000 copies in English and 250 in French of its minutes of proceedings and evidence and that Standing Order 66 be suspended in relation thereto.

Respectfully submitted,

W. EARL ROWE,
Chairman.

(Concurred in this day)

ORDERS OF REFERENCE

HOUSE OF COMMONS,
WEDNESDAY, April 29, 1959.

Ordered,—That a Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government, be appointed to consider the accounts, estimates and bills relating to the Canadian National Railways, the Canadian National (West Indies) Steamships and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records, and to report from time to time; and that, notwithstanding Standing Order 67 in relation to the limitation of the number of members, the said Committee shall consist of 26 members.

Ordered,—That the Sessional Committee on Railways, Air Lines and Shipping consist of Messrs. Badanai, Bourbonnais, Brassard (*Lapointe*), Broome, Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Granger, Grills, Horner (*Jasper-Edson*), Kennedy, McPhillips, McWilliam, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smallwood, Smith (*Simcoe North*), and Tasse, and that the Annual Reports for 1958 of the Canadian National Railways, Canadian National (West Indies) Steamships Limited, Canadian National Railways Securities Trust, Auditors' Report to Parliament in respect of the Canadian National Railways and Canadian National (West Indies) Steamships Limited, tabled on April 14; the Annual Report of Trans-Canada Air Lines for 1958, the Auditors' Report to Parliament on Trans-Canada Air Lines for 1958, tabled on April 10; and the budgets for 1959 of the Canadian National Railways, Canadian National (West Indies) Steamships Limited, and Trans-Canada Air Lines, tabled on April 20, be referred to the Sessional Committee on Railways, Air Lines and Shipping; and that items numbered 410—Prince Edward Island Car Ferry and Terminals; 411—Newfoundland Ferry and Terminals; and 419—Maritime Freight Rates Act, as listed in the Main Estimates of 1959-60, be withdrawn from the Committee of Supply and referred to the said Committee, saving always the powers of the Committee of Supply in relation to the voting of public moneys.

MONDAY, May 4, 1959.

Ordered,—That the quorum of the Sessional Committee on Railways, Air Lines and Shipping be set at 10 members; that the said Committee be empowered to sit while the House is sitting; that the said Committee be authorized to print, from day to day, 1000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence, and that Standing Order 66 be suspended in relation thereto.

WEDNESDAY, May 6, 1959.

Ordered,—That the name of Mr. Smith (*Calgary South*) be substituted for that of Mr. Grills on the Sessional Committee on Railways, Air Lines and Shipping.

Attest

LEON J. RAYMOND,
Clerk of the House

MINUTES OF PROCEEDINGS

FRIDAY, May 4, 1959

(1)

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government held its organization meeting at 2 o'clock this day.

Members present: Messrs. Broome, Chevrier, Creaghan, Drysdale, Fraser, Kennedy, McPhillips, Mitchell, Pascoe, Robinson, Rowe, Smallwood, Smith (*Simcoe North*), and Tassé.—(14).

The Clerk attending and having called for nominations, Mr. Smith (*Simcoe North*) seconded by Mr. Broome, moved that Hon. W. Earl Rowe be appointed Chairman.

Mr. Fraser moved, and it was agreed, that nominations be closed.

The question being put on Mr. Smith's motion, it was resolved in the affirmative.

Mr. Rowe took the Chair.

The Committee proceeded to routine proceedings.

Vice-Chairman

On motion of Mr. Fraser, seconded by Mr. McPhillips,

Resolved,—That Mr. Tassé be appointed Vice-Chairman.

Quorum

On motion of Mr. Fraser, seconded by Mr. Robinson,

Resolved,—That the Committee recommend that the quorum be 10 members.

Printing

On motion of Mr. Drysdale, seconded by Mr. Tassé,

Resolved,—That the Committee ask for power to print, from day to day, 1000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence.

Sitting while the House is sitting

On motion of Mr. Fraser, seconded by Mr. Broome,

Resolved,—That the Committee be empowered to sit while the House is sitting.

The Chairman referred to the Orders of Reference dated April 29, 1959 which were deemed to have been read. (*see Issue No. 1*)

After a brief discussion on future days and hours of sittings, and on motion of Mr. Smith, seconded by Mr. Fraser,

Resolved,—That the Committee meet on Tuesday, May 5, at 9.30 in the forenoon and 3.30 in the afternoon and, if necessary, at 8 in the evening.

It was further agreed to set further sittings from day to day.

Ordered,—That the Chairman present the first Report to the House.

At 2.20 o'clock, the Committee adjourned to Tuesday, May 5 at 9.30 o'clock in the morning.

TUESDAY, May 5, 1959

(2)

MORNING MEETING

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government met at 9.30 o'clock. The Chairman, Honourable Earl Rowe, presided.

Members present: Messrs. Brassard (*Lapointe*), Broome, Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Grills, Horner (*Jasper-Edson*), Kennedy, Martini, McPhillips, Mitchell, Monteith (*Verdun*), Pascoe, Robinson Rowe, Smallwood, Smith (*Simcoe North*), and Tassé.—(22)

Also present: Honourable George H. Hees, Minister of Transport, and Mr. C. A. Cathers, M.P.

In attendance: Mr. Donald Gordon, Mr. S. F. Dingle, Mr. J. L. Toole, respectively President and Chairman of the Board, Vice-President (Operations), Vice-President (Accounting and Finance), Messrs. R. T. Vaughan, W. Dodds, R. Sommerville, Manager, Canadian Hotels Ltd., all of the Canadian National Railways, and Messrs. Howard T. Ross and J. W. Beech representing George A. Touche & Co.

The Committee proceeded to the consideration of the Canadian National Annual Report for the year 1958, being item 1 of the matters referred, the sequence of which is as follows:

- C.N.R.—1. Annual Report (1958)
- 2. Capital Budget and Estimated Income Account (1959)
- 3. Annual Report—C.N. (West Indies) Steamships Ltd.
- 4. C.N.R. Securities Trust
- 5. Auditors' Report—(George A. Touche & Co.)
 - a) C.N.R. System.) 1958
 - b) C.N. West Indies.) 1958
- 6. Items 410, 411 and 419—Main Estimates (1960)
 - (Issues nos 1 and 2.)
- T.C.A.—7. Annual Report—Trans Canada Air Lines (1958)
- 8. Auditors' Report—(George A. Touche & Co.)
- 9. Capital Budget (1959).
 - (Issue No. 3.)

Copies of annual reports having been distributed in advance, on motion of Mr. Drysdale, seconded by Mr. McPhillips,

Resolved,—That the reading of annual reports be dispensed with.

It was agreed however to include the full texts in the proceedings and to consider the said reports paragraph by paragraph.

Mr. Gordon was called and questioned on Traffic and Revenues and on Passenger, Messrs. Dingle and Toole assisting him.

A table respecting truck operations was ordered printed. (*See Appendix I in this day's evidence.*)

The witness read into the record a statement on C.N.R. passes to December 31, 1958.

By consent, Mr. Cathers questioned the witness.

At 12.30, Mr. Gordon's examination still continuing, the Committee adjourned until 3.00 this day or after the Orders of the Day have been proceeded with in the House.

AFTERNOON MEETING

(3)

The Committee resumed at 3.30 o'clock. The Chairman, Hon. W. Earl Rowe, presided.

Members present: Messrs. Brassard (*Lapointe*), Broome, Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Horner (*Jasper-Edson*), Kennedy, Martini, McPhillips, Mitchell, Monteith (*Verdun*), Pascoe, Rowe, Smallwood, Smith (*Simcoe North*), and Tassé—(20).

Also present: The Hon. George H. Hees, Minister of Transport, and Messrs. C. A. Cathers, M.P., L. R. Crouse, M.P., and H. R. MacEwan, M.P.

In attendance: Same as at the morning meeting.

The Committee agreed to sit in the evening at 8 o'clock and at 9 and 3 o'clock on Wednesday, May 6th.

The Committee continued its consideration of the C.N.R. Annual Report.

Mr. Gordon provided answers to questions posed at the morning meeting.

Mr. Dingle also answered specific questions relating to Operation.

On motion of Mr. Fisher, seconded by Mr. Drysdale,
Agreed,—That Mr. Cathers be allowed to ask questions.

By consent, Mr. Crouse also questioned Mr. Gordon.

The witness undertook to make, at the next meeting, a statement on the Western Union and C.O.T.C.

A table showing a C.N.R. comparison on employment levels (1954-58) was filed and ordered printed. (*See Appendix II in this day's evidence*).

At 5.45 p.m., Mr. Gordon's examination still continuing, the Committee adjourned until 8 o'clock in the evening.

EVENING MEETING

(4)

The Committee resumed at 8 o'clock. Hon. W. Earl Rowe, the Chairman, presided.

Members present: Messrs. Broome, Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Horner (*Jasper-Edson*), Kennedy, Martini, McPhillips, Mitchell, Monteith (*Verdun*), Pascoe, Rowe, Smallwood, Smith (*Simcoe North*), and Tassé—(19).

Also present: Hon. George H. Hees, Minister of Transport, and Mr. C. A. Cathers, M.P.

In attendance: Same as at morning meeting.

Mr. Gordon, still assisted by Messrs. Dingle and Toole, was examined on the following headings of the Annual Report:

- Operating Expenses
- Taxes, Rents and Fixed Charges
- Other Income including Hotel Operations
- Growth and Progress

Mimeographed copies of the Canadian National Railways Capital Budget and Estimated Income Account (*item 2 of the matters to be considered*) 1959, were distributed to the members present.

At 9.45 o'clock the Committee adjourned until Wednesday, May 6, at 9 a.m.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

TUESDAY, May 5, 1959.

MORNING MEETING

The CHAIRMAN: Gentlemen, as I see a quorum, we will proceed with the work of the committee on railways, airlines and shipping. The first item before you is the annual report of the Canadian National Railways.

We have with us the president, Mr. Donald Gordon, whom we are glad to see hale, hearty and ready to explain everything about the C.N.R. What is your pleasure; is it your wish to have the report read?

Mr. DRYSDALE: Mr. Chairman, I would move that the report be filed in the record as it is. That would give us more opportunity perhaps to ask questions and possibly follow it through from paragraph to paragraph. I would suggest that the first paragraph be taken as general in nature, so that we have an opportunity, perhaps, to discuss just the background of the C.N.R., rather than following the items individually.

Mr. McPHILLIPS: I second that motion.

The CHAIRMAN: It has been moved and seconded that we take the report as read and that we deal with it paragraph by paragraph. What is your pleasure on that motion, gentlemen?

Motion adopted.

CANADIAN NATIONAL RAILWAYS

Donald Gordon
Chairman and president

Montreal March 2nd, 1959.

The Honourable George Hees, M.P.,
Minister of Transport,
Ottawa, Ontario.

Dear Sir:

On behalf of the Board of Directors, I submit herewith the Annual Report of the Canadian National Railways for the year 1958.

Mr. R. B. Brennan of Saint John, N.B., who had been a member of the Board of Directors since November 1st, 1944, retired on January 21st, 1959. On the same date, Mr. W. G. Stewart, Q.C., of Moncton, N.B., was appointed a Director by Order-in-Council No. 1959-53.

It is with pleasure that I record the appreciation of the Management for the loyal and effective service rendered by officers and employees throughout the organization.

Yours sincerely,
D. Gordon

ANNUAL REPORT 1958

1. The reduced level of economic activity in 1958 caused a marked decline in virtually all types of traffic carried by Canadian National Railways. As a result, operating revenues decreased to \$704.9 million, 6.4% lower than in 1957.

2. Despite a continued rise in wage costs during the year, operating expenses were reduced significantly. This reduction was not sufficient, however, to offset the drop in revenues and a heavy increase in fixed charges. The net result was a deficit of \$51.6 million.

3. In abbreviated form, the financial results compare with those for 1957 as follows:

	1958	1957
	(Millions of Dollars)	
Operating revenues	\$704.9	\$753.2
Operating expenses	700.0	734.6
Net operating revenue	4.9	18.6
Taxes, rents, less other income	10.0	11.2
Available for fixed charges	5.1	7.4
Fixed charges	46.5	37.0
Surplus or deficit	51.6	29.6

TRAFFIC & REVENUES

Freight

4. The volume of freight traffic carried by Canadian National Railways, measured in ton-miles, decreased by 4.4% in 1958. Coupled with a drop in the average revenue per ton-mile, this caused freight revenues to decline to \$545.2 million, \$42.0 million or 7.2% less than in 1957.

5. Freight tonnage amounted to 79.5 million tons compared with 88.9 million in 1957, but the effect of this drop was partially offset by an increase in the average length of haul from 413 to 441 miles. The principal decreases in traffic occurred in such commodities as coal, mine products, pulp and paper, iron and steel, automobiles and parts, and petroleum products.

6. The average revenue per ton-mile fell from 1.601 cents in 1957 to 1.554 cents in 1958. This was attributable mainly to an increase in the movement of grain, one of the lowest-rated commodities carried by the railway.

7. A 3.6% freight rate increase was granted by the Board of Transport Commissioners effective January 15, 1958, but on appeal was disallowed by the Governor-in-Council before being implemented. On September 16, the railways applied for a 19% interim freight rate increase, with 25 cents per ton on coal and coke—the minimum required by Canadian National to meet wage increases on the basis recommended by a Board of Conciliation. The Board of Transport Commissioners granted the railways an interim increase of 17% in freight rates, with 22 cents per ton on coal and coke effective December 1.

8. Incentive loading rates, designed to meet truck competition and to induce shippers to load cars closer to their physical capacities, helped to reduce the impact of the decline in freight traffic. Similar efforts to stimulate freight traffic were made through the more extensive use of agreed charges.

Passenger

9. A sharp decline in the number of passengers carried and a decrease in their average journey combined to reduce passenger revenues to \$41.5 million. This represented a drop of 11.4% or \$5.3 million from the 1957 level.

10. The reduction in the number of passengers amounted to 8.5%, a decrease from 13.9 to 12.7 million. The average journey of these passengers fell from 108 to 100 miles, so that total passenger miles decreased by 15.3%.

11. The average revenue per passenger mile increased slightly, from 3.12 cents to 3.27 cents, largely as a result of fare increases authorized during the previous year.

12. There were no significant changes in fares in 1958.

13. Of the 12.7 million passengers carried by the Canadian National, 4.8 million or 38.1% were commuters. This traffic provided 3.3% of total passenger revenues.

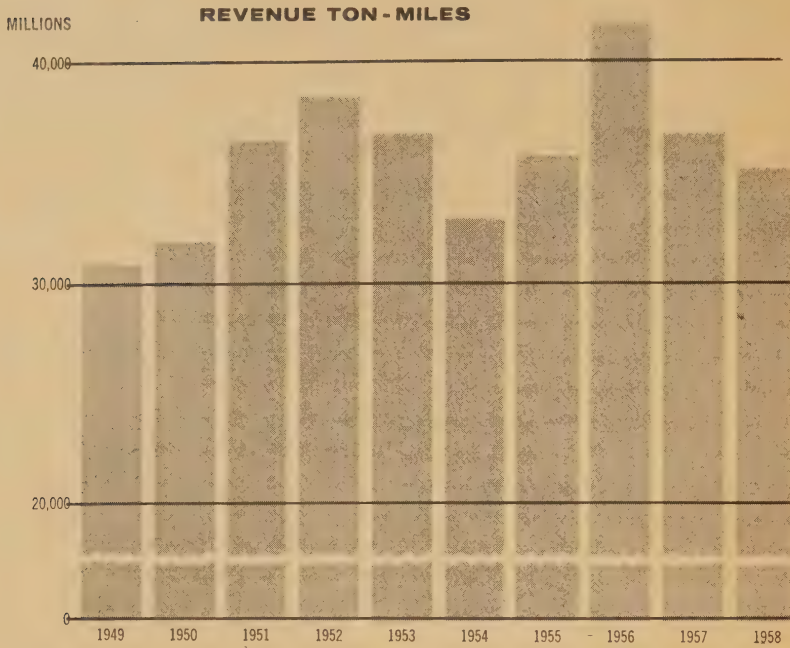
14. The receipts from other passenger services, such as sleeping, dining and parlor car service, decreased to \$9.0 million in 1958, a drop of \$2.2 million.

15. Continued emphasis was placed on market research to secure better information for sales promotion and planning. Efforts were intensified to stimulate rail travel through the use of such specially priced services as the family fare plan, bargain coach excursions and package tours.

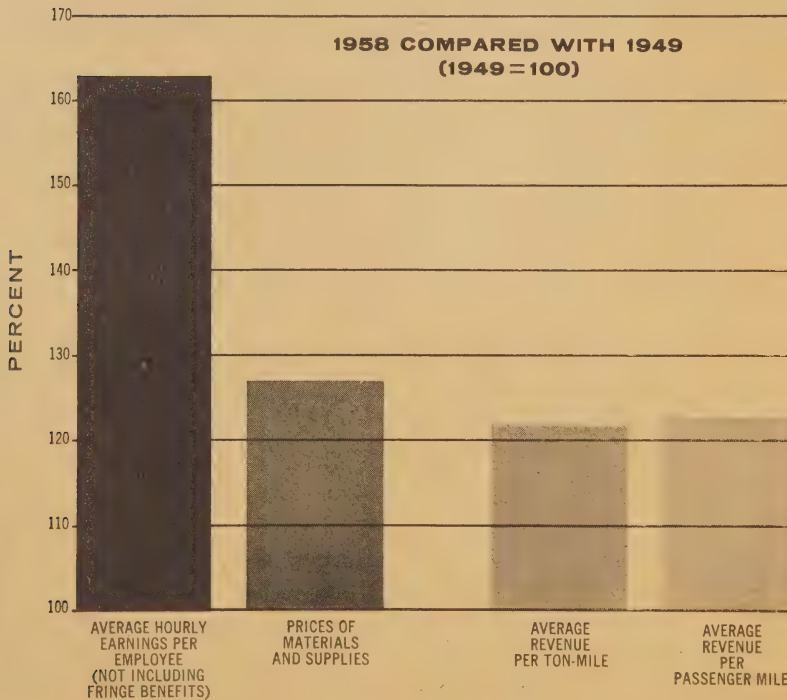
Express

16. Express revenues, at \$42.0 million, were virtually unchanged from 1957. An increase in charges on shipments weighing less than 100 pounds offset a decrease in the volume of traffic.

VOLUME OF FREIGHT TRAFFIC 1949-1958



INDEX OF COSTS AND UNIT REVENUES



Communications

17. During 1958, the Northwest Communication System was entrusted to the Canadian National, thereby increasing the Shareholder's Equity account by \$17.8 million. In October, the railway also acquired the outstanding capital stock of the Yukon Telephone Company Ltd. These additions, along with an expansion in private wire, Telex, and other services, caused the revenues from Canadian National Communications to rise to a new record of \$24.0 million, 15.9% higher than in 1957.

18. Although the number of messages handled experienced a 9.9% decrease—11.1 million compared to 12.3 million in 1957—message revenues were higher because of the new tariffs that came into effect late in 1957.

19. Telex service was established in 10 additional Canadian cities, so that this network now covers 21 cities in Canada as well as New York City. The charges for this service, which provides direct dialling and instantaneous two-way printed communications between subscribers, are considerably lower than long-distance telephone rates.

20. Transmission service for CBC television was extended to Three Rivers, Que., and an order has been received for an extension from Rimouski to New Carlisle, Que. Work proceeded on a micro-wave system for the transmission of television and general communications between Sydney, N.S., and St. John's, Nfld.

21. To meet the continued demand for private wire and other related services, 31,000 miles of carrier telephone channels and 109,000 miles of carrier telegraph channels were added during the year.

22. A new nation-wide telephone service, inter-connecting all airports, was established for the Department of Transport. This network, operated jointly with Canadian Pacific, provides what is known as Air Movement Information Service.

Operating Expenses

23. Operating expenses fell to \$700.0 million in 1958, 4.7% below the 1957 level of \$734.6 million.

24. Road maintenance expense rose by \$3.5 million to \$157.3 million, mainly as a result of wage rate increases totalling \$3.7 million. The volume of roadway work accomplished during 1958 was also slightly larger than in the previous year.

25. Equipment maintenance expenses were \$16.0 million lower than in 1957, principally because the 1958 expenses were reduced by \$7.5 million to eliminate a supplementary charge for steam locomotive depreciation which was made in 1957. Wage increases applicable to equipment maintenance totalled \$2.7 million.

26. Transportation expenses fell by \$23.0 million to \$319.4 million during 1958, despite wage increases of \$10.3 million. The decrease was a reflection not only of the lower volume of traffic but also of the important economies in train operation which have been achieved, particularly by means of further dieselization.

Compensation to Employees

27. Compared with the previous year, higher wage rates and increased benefits added \$18.5 million to the company's expenses; in total, operating payrolls, pensions and health and welfare benefits represented 64.6% of the 1958 expense dollar.

28. The principal increase in wage costs stemmed from an agreement concluded on November 26 between the company and representatives of some 71,000 of its non-operating employees. This contract, valid until December 31, 1959, provided for a wage increase of four cents per hour retroactive to January 1, 1958, plus increases of 3% effective September 1, 1958, and April 1, 1959. Provision was also made for increased contributions by the company and by the employees to the Health and Welfare Plan.

29. Wage costs in 1958 were also affected by agreements concluded during January, 1959, with the Brotherhood of Railroad Trainmen, for train employees on Canadian lines, and with the Brotherhood of Locomotive Engineers, for engineers employed in the Western Region. These three-year agreements, which were made retroactive for most of 1958, provided wage increases payable in four installments totalling 9.8% and 9.5% respectively. Wage increases equivalent to those received by the engineers in the Western Region were offered to the engineers employed in the Atlantic and Central Regions, and at the date of this report negotiations are underway.

30. A further increase in wage costs resulted from agreements concluded during the year with employees engaged in marine, hotel and other operations.

31. The dispute with the Brotherhood of Locomotive Firemen and Enginemen was submitted to a Board of Conciliation in June, 1958, and its report is still pending. The most important issue involved was the proposal by the company that the conditions under which firemen (helpers) are to be assigned to diesel locomotives be recognized as a matter of managerial discretion. The union's position was that the findings of the Royal Commission, under the chairmanship of Mr. Justice R. L. Kellock, in the Canadian Pacific firemen's case had no bearing on the dispute with the Canadian National. The union further demanded a wage increase of 18% as well as higher fringe benefits.

Taxes, Rents and Fixed Charges

32. Total taxes and rents paid by the railway fell by \$1.5 million to \$19.2 million. As a result of the lower volume of traffic, rentals of equipment and facilities decreased by \$2.3 million, but this was partially offset by an increase of \$0.9 million in taxes which in aggregate amounted to \$17.5 million.

33. Fixed charges totalled \$46.5 million in 1958, \$9.5 million higher than in the previous year. Of this increase, \$1.6 million represented interest on new borrowings of \$135.5 million in the course of the year (including \$31.1 million for TCA), while the refinancing at higher interest rates of \$289.3 million of outstanding loans added a further \$4.2 million. The remainder of the increase in fixed charges was attributable mainly to the payment of interest for a full year on funds borrowed during 1957.

Other Income

34. Other income, shown on page 29, amounted to \$9.2 million, compared to \$9.4 million in 1957. No interest or dividends were received from the Northern Alberta Railways, which was able to cover only its operating expenses.

Hotel Operations

35. The net income from the hotels owned by the railway increased to \$1.9 million before interest, \$0.3 million higher than in the previous year.

36. The Queen Elizabeth hotel was officially opened in Montreal on April 17. This 21-storey addition to the railway's hotel chain has already won enthusiastic approval, and is rapidly establishing Montreal as one of the major convention cities in North America.

37. In Halifax, construction was started on a 160-room extension to the Nova Scotian hotel to meet the needs of this growing city.

GROWTH AND PROGRESS

38. In an endeavour to develop business and improve operating performance, the company continued during 1958 with the construction of new branch lines and the modernization of its equipment and facilities. This effort produced improvements in almost every aspect of the company's operations, and the results were clearly reflected in better service to the public and important economies to the railway.

THE REVENUE DOLLAR 1958



39. Many of these improvements involved capital expenditures on a substantial scale, the details of which are shown on page 32. The inventory of railway equipment appears on page 36.

New Lines

40. The Chibougamau line in northern Quebec, one of the railway's major new branch lines, moved another step closer to completion. Track was laid and the initial ballast lift completed on the 65-mile section from St. Felicien to Lake Chigoubiche, while on the second and linking section from Lake Chigoubiche to Cache Lake a start was made on the laying of track. Grading and bridge construction on this portion were also well advanced.

41. Contracts were let for the grading of a 52-mile line from Optic Lake to Chisel Lake, Manitoba, and at year end work was well underway. This branch line will serve a mining development of the Hudson Bay Mining and Smelting Company.

Roadway

42. To expand the operation of faster, longer and heavier trains, the company continued to up-grade its roadway property. New rail was laid on 862 miles of track while part-worn rail was relaid on 326 miles of secondary lines. At the same time, the six-year mainline track improvement program in the Western Region was advanced in its third year according to schedule.

43. Along with the need to adjust the roadway structure to the improvements in train operation, it became necessary to extend passing sidings throughout the System. Work on this project continued in 1958, and by the end of the year subdivisions between Montreal and Winnipeg could accommodate 100-car trains, and those between Winnipeg and Edmonton 117-car trains. Upon completion of the project subdivisions on the transcontinental mainline will be able to accommodate trains of at least 100 cars.

44. Roadway maintenance was further mechanized in 1958 through the purchase of 260 units of roadway machinery.

Signals

45. The installation of Centralized Traffic Control on four subdivisions, based on detailed engineering plans developed in 1957, was begun during 1958 and will be completed early in the coming year. Plans were also made for the application of C.T.C. to five more subdivisions in 1959.

46. A further improvement in operation was achieved through the completion of C.T.C. signalling in the west end of Winnipeg Terminals.

47. These installations are part of the company's long-range C.T.C. program which encompasses 40 subdivisions or some 4,000 miles of mainline track. This program has already produced significant improvements in operating performance.

Yards and Terminals

48. Considerable construction activity took place during the year to provide the railway with up-to-date yard and terminal facilities. Good progress was made with the three hump yards being built in the strategic locations of Montreal, Moncton and Winnipeg. At Montreal, grading and drainage was substantially completed, bridges were built, and one-third of the trackage was laid. In Moncton, clearing and grading were well underway, and in Winnipeg a start on this work was made in September.

49. Studies were progressed for the purpose of finding a solution to the growing congestion in the freight handling facilities of the Toronto area, and it was concluded in principle that an integrated hump yard facility is required together with appropriate access lines. This central link would complete the chain of major classification yards now planned for the CNR System.

50. Yard improvements and extensions were completed during the year at Pontiac, Mich., and Saint John, N.B., and reached the final stages of construction at Joffre, Sarnia, Edmonton, and Port Mann, and at Flint and Battle Creek on the Grand Trunk Western.

51. New projects to provide additional yard capacity were started at Campbellton, N.B., and North Sydney, N.S., while work at Corner Brook, Nfld., progressed to the rail-laying stage. At year end, an expansion of the terminal facilities at St. John's' Nfld., was also planned.

Dieselization

52. The systematic dieselization of the System continued with the delivery of 303 new diesel units. This completed dieselization of the Atlantic Region and of the South Shore of the St. Lawrence east of Montreal. The changeover from steam power was also virtually complete in the Quebec, British Columbia, and Northern Ontario Districts.

53. The majority of diesel locomotives purchased during the year was of the road switcher type, an engine equally suitable for road or yard service. By the end of 1958, diesels were accounting for 88% of freight gross ton miles, 95% of yard engine hours and 83% of passenger car miles.

54. A new running maintenance shop to service diesel locomotives was completed at Montreal. This shop now serves as one of the principal maintenance points on the Central Region. A similar type of shop was almost completed at Edmonton, while in Moncton preparations were being made for the construction of a running maintenance shop to serve the new hump hard.

55. At Senneterre, Que., work was started on a smaller shop to provide light running maintenance for locomotives operating in northern Ontario and Quebec. Rolling Stock

56. A wide variety of new equipment was placed in service during 1958, adapting the company's inventory of rolling stock to the constant changes in the nation's transportation requirements. In freight equipment, 2,190 new cars were added, including two flat cars with a record load capacity of 168 tons for the handling of special traffic. Also included in this new equipment were five aluminum refrigerator cars, which were placed in test service to determine whether this equipment is superior, from an economic point of view, to conventional refrigerator cars. Allowing for retirements and conversions, the freight car inventory at year end was smaller by 1,296 cars.

57. An additional 50 flat cars were equipped with special fittings to meet the growing demand for "piggyback" service, and an order was placed for 125 of the highly successful double-deck automobile transporters, a product of CNR research.

58. Ninety-seven units of passenger train equipment were added during the year, including five self-propelled "Railiners" and 51 modern air-conditioned roomette cars.

Service Improvements

59. Substantial improvements were made in freight and passenger service throughout the System. Eastward freight schedules from Montreal and Toronto to the Maritimes were reduced by 24 hours, and one day earlier delivery was also achieved for freight moving westward from Montreal and Toronto to Winnipeg.

60. Facilities for common carrier piggyback service were placed in operation at London, Port Arthur and Winnipeg. Piggyback service for railway-owned trailers was extended to include major points in the Maritimes.

61. Thirty-eight passenger train schedules were reduced by an average of one hour and 35 minutes, largely through the substitution of diesel power and self-propelled diesel Railiners. Two of the major trains affected were the "Maritime Express" and the "Ocean Limited," whose westward schedules were accelerated by three hours and one hour respectively, while slightly smaller reductions were made in their eastward running times.

62. Railiners were placed in service on six new runs during the year, one in the Maritimes, one in Quebec, and four in Saskatchewan and Alberta. At year end, Railiners were in operation on 19 inter-city runs.

63. The cafeteria car, an experiment in economy meal service, proved to be successful and six more dining cars were being converted to fill the demand. Wider use was also made of coffee shop service and dinette cars; the latter were placed in service on the "Continental" from Montreal through to Vancouver.

64. On October 5, the M.V. "William Carson" began scheduled service for passenger, mail, express and freight traffic between North Sydney and Port-aux-Basques. At that time, the harbour improvements and navigational aids were not fully completed, although test runs indicated that these improvements were sufficiently advanced to permit safe operation.
Montreal Terminal Development

65. Pursuant to the signing of a lease with CNR effective January, 1958, the Place Ville Marie Corporation, a subsidiary of Webb and Knapp (Canada) Ltd., started in November on excavation for the foundation of a 42-storey office building. The agreement provides that a major part of the Place Ville Marie development is to be completed before January 1, 1963.

66. During 1958, work was also started on the foundations for a new CNR headquarters building and adjoining public parking garage, to be situated in the terminal area. The office building will accommodate headquarters functions now being performed at some 20 different locations in Montreal.
Integrated Data Processing

67. Significant progress was made in the application of integrated data processing techniques to the huge mass of data required to record and control the railway's operations.

68. The first phase of the freight car control program was successfully completed by conversion from the manual method of accounting for freight car movements and rentals to a fully mechanized operation. The second phase of the program, the establishment of communication circuits from coast to coast to provide yard offices with advance information on freight train consists, to relay records of freight car movements for prompt shipper notification, and eventually to improve the utilization of freight cars, was advanced by the completion of the communications systems and yard installations between Montreal and Toronto. This network will be extended to Moncton in 1959.

69. With the extension during 1958 of communications circuits to Moncton and Winnipeg, payroll operations for Canadian lines employees from coast to coast are now being performed at the computer centre in Montreal.

70. Plans were developed during the year for a data processing system for the control of inventories of materials and stores. Implementation of these plans commenced at year end with the establishment of a purchasing and stores accounting centre at Montreal.

Research and Experimentation

71. The railway continued to carry out research into the technical and economic aspects of its many operations. These studies again yielded worthwhile results in the elimination of unprofitable services and in the development and testing of new types of equipment.

72. Technical research and materials testing produced such results as an improvement in the service characteristics of locomotive and car wheels and in diesel engine lubrication. Specifications were established for a wide variety of materials purchased by the railway with a view to economy as well as improved quality.

73. Successful tests were carried out on a heated box car, designed by CNR to protect perishable traffic during the winter without losing the advantages of the standard box car during the rest of the year. At year end, it was planned to order 200 of these versatile cars.

74. Several studies of technical railway problems were also carried out in conjunction with the National Research Council.

75. The Operational Research Section that was established in 1957 directed its efforts towards a study of train performance, freight car and diesel locomotive utilization, and inventory control. A useful analytical tool was developed by the use of a computer to stimulate train performance under varying conditions of train load, track gradient and curvature, and speed restrictions.

GENERAL

St. Lawrence Seaway Project

76. At Victoria Bridge in Montreal, work proceeded on new highway approaches and lift spans to permit an uninterrupted flow of vehicular traffic over the Seaway locks. Progress was also made on the construction of a railway diversion around the St. Lambert Lock.

Hudson Bay Railway

77. Early in 1958 the Hudson Bay Railway (formerly operated on behalf of the Department of Transport) was entrusted to the Canadian National System on a basis similar to that of other Canadian Government railways. Accordingly, the Shareholders' Equity account was increased by \$34.7 million. Co-operation under the Canadian National-Canadian Pacific Act, 1933

78. The subject of train pooling continued to receive the consideration of the management of both railways, but no changes in pool service were instituted during the year.

Corporate Reorganization

79. Further progress was made towards the simplification of the System's corporate structure. The number of corporate entities comprised in the System was reduced from 45 to 37, and preliminary steps were taken for a further reduction in 1959.

THE YEAR IN PERSPECTIVE

80. The financial results for 1958 must be regarded as a matter of serious concern. It is appropriate, therefore, that some comment be made on the factors which stand behind the results of the recent past and cast their shadows into the future.

81. One of the major factors has been the railway's increasing reliance, partly as a result of competitive pressures, on traffic from the nation's basic resource industries. This traffic, which accounts for the greater proportion of freight volume, tends to be highly sensitive to fluctuations in economic activity. As a consequence, even in a mild recession the railway's revenues may suffer a relatively severe decline.

82. Perhaps the most important single factor in the railway's net income position has been the continuing increase in operating costs occasioned by rising wages and material prices. During the past decade these increases in cost have far outstripped the effective revenue yield of consequential rate increases, and the real improvements that have been achieved in operating performance have failed to check the deterioration in final income results.

83. The indirect effects of inflation on capital account have been no less serious. Not only is there a continuing gap between book value and replacement cost, when replacing assets in kind, but rising prices have made all the more costly the program of rehabilitation and modernization upon which management has embarked as a matter of both necessity and business prudence. More recently, higher interest rates have added substantially to the carrying charges of borrowed capital, and in this connection it may be observed that in the seven years since the Capital Revision Act became effective nearly 67% of CNR's capital requirements have been financed by borrowing. In consequence, fixed charges have risen from \$25.4 million in 1952 to \$46.5 million in 1958.

84. Many of these problems are common to other railways in North America, and this commentary is not meant to imply either that a deficit position is inescapable or that the major elements in the situation are beyond the control of management. In Canadian National, as in most large railways, there are continuing improvements in efficiency and a never-ending series of fresh opportunities for still further improvements. The task for the future is to readjust the railway's plant, facilities, and working force to the kind and quantity of service which the public, increasingly accustomed to a choice of alternatives in transportation, is prepared to patronize and to pay for. This task is being tackled with vigour and resolution.



CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1958

ASSETS

Current Assets	
Cash	\$ 30,059,882
Accounts receivable	61,507,394
Material and supplies	87,237,502
Other current assets	8,469,872
Government of Canada—Due on deficit account	3,591,424
	<u>\$ 190,866,054</u>

Insurance Fund	15,000,000
Investments in Affiliated Companies Not Consolidated	133,909,529

Property Investment	
Road	2,123,290,967
Equipment	1,327,780,808
Other physical properties	97,258,515
	<u>559,499,403</u>
Less recorded depreciation	2,988,830,887

Other Assets and Deferred Charges	
Other investments	1,703,327
Prepayments	2,907,897
Unamortized discount on long term debt	14,557,211
Other assets	10,675,510
Deferred charges	12,417,826
	<u>42,261,771</u>

\$3,370,868,241

LIABILITIES

Current Liabilities	
Accounts payable	\$ 74,270,066
Accrued charges	23,973,342
Other current liabilities	2,090,409
	<u>\$ 100,333,817</u>

Provision for Insurance	15,000,000
Other Liabilities and Deferred Credits	28,041,707

Long Term Debt	
Bonds, debentures and equipment obligations	1,033,808,970
Government of Canada loans and debentures	484,791,999
	<u>1,518,600,669</u>

SHAREHOLDERS' EQUITY

Government of Canada	
6,000,000 shares of no par value capital stock of Canadian National Railway Company	389,518,135
882,320,571 shares of 4% preferred stock of Canadian National Railway Company	882,320,571
Capital investment of Government of Canada in the Canadian Government Railways	432,549,139
	<u>1,704,387,845</u>

Capital Stock of Subsidiary Companies Owned by Public	4,504,203
	<u>1,708,892,048</u>

\$3,370,868,241

The notes appearing on page 28 are an integral part of this Balance Sheet.

J. L. TOOLE,
Comptroller.

AUDITORS' REPORT

To the Honourable The Minister of Transport,
Ottawa, Canada.

We have examined the books and accounts of the Canadian National Railway System for the year ended December 31, 1958. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting referred to in Note 1, the above consolidated balance sheet and the related consolidated income statement are properly drawn up so as to give a true and fair view of the state of the System's affairs at December 31, 1958 and of the results of operations for the year then ended, according to the best of our information and the explanations given to us and as shown by the books of the System. In our opinion the statements are prepared on a basis consistent with that of the preceding year except for the reversal of supplementary depreciation provided in 1957 and the capital losses charged to Shareholders' Equity as referred to in Note 1 which we approve.

We further report that in our opinion proper books of account have been kept by the System and the transactions of the System that have come under our notice have been within the powers of the System.

We are also submitting a supplementary explanatory report.

February 24, 1959.

GEORGE A. TOUCHE & CO.,

Chartered Accountants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 1958

Note 1. Property Investment:

Additions since January 1, 1923 have been recorded at cost and properties and equipment brought into the System at January 1, 1923 are included at the values appearing in the books of the several railways now comprising the System to the extent that these have not been retired or replaced.

Depreciation on Canadian Lines: Depreciation accounting as adopted for equipment in 1940, for hotel properties in 1954 and for track and road structures and all other physical properties except land in 1956 has been continued in 1958. The depreciation rates used are based on the estimated service life of the properties but do not provide for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force, nor for extraordinary obsolescence resulting from the introduction of more efficient equipment. A provision of \$7,500,000 for supplementary depreciation charged in the accounts in 1957 was reversed in the accounts for 1958 and replaced by a charge of \$7,000,000 against Shareholders' Equity in order to record the capital losses sustained to December 31, 1958 arising from the early retirement of steam locomotives and the insufficiency of the related reserve for depreciation.

Depreciation on U.S. Lines: Replacement accounting for track and depreciation accounting for equipment and other physical property except land has been continued in accordance with the regulations of the Interstate Commerce Commission.

Note 2. Material and Supplies:

The inventory has been priced at laid down cost based on weighted average cost for ties, rails and fuel and latest invoice price for new materials in general stores, and at estimated utility or sales value for usable second hand, obsolete and scrap materials.

Note 3. Capital Stock:

The capital stock of the Canadian National Railway Company (other than the four per cent preferred stock) and the capital investment of Her Majesty in the Canadian Government Railways are included in the net debt of Canada and disclosed in the historical record of government assistance to railways as shown in the Public Accounts of Canada.

Note 4. Pensions:

At December 31, 1958 an amount of \$203,525,180 had been accumulated in the Pension Trust Fund in respect of pension liabilities. This amount represents provision for pensions in force under the 1935 plan, but not for pensions granted under prior plans or for increased benefits granted to employees who were contributors under the 1935 plan and who retired on pension prior to January 1, 1952. Consistent with its established practice the railway has made no transfer or allocation of funds for pensions conditionally accruing in respect of employees now in service.

Note 5. Major Commitments:

(a) Chicago & Western Indiana Railroad Company:

Pursuant to a joint supplemental lease dated May 1, 1952, the Grand Trunk Western Railroad Company and four other proprietary-tenant companies are obligated to pay, as rental, sinking fund payments sufficient to retire bonds at

maturity and interest as it falls due with respect to First Collateral Trust Mortgage 4 $\frac{3}{8}$ % Sinking Fund Bonds Series "A" due May 1, 1982. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of the tenant companies. The bonds outstanding at December 31, 1958 total \$55,808,000.

(b) Detroit & Toledo Shore Line Railroad Company:

The Grand Trunk Western Railroad Company is jointly and severally liable as guarantor of principal, interest and sinking fund payments with respect to \$2,850,000 First Mortgage 3 $\frac{1}{4}$ %-30 year Series "A" Bonds, due December 1, 1982, of the Detroit & Toledo Shore Line Railroad Company.

CONSOLIDATED INCOME STATEMENT

	1958	1957
RAILWAY OPERATING REVENUES		
Freight services.....	\$560,265,237	\$604,932,271
Passenger services.....	50,493,785	58,035,602
Express.....	42,610,340	42,926,608
Communications.....	23,962,528	20,750,060
All other.....	27,615,520	26,521,423
Total operating revenues.....	704,947,410	753,165,964
RAILWAY OPERATING EXPENSES		
Road maintenance.....	157,280,243	153,760,070
Equipment maintenance.....	145,971,081	161,961,616
Traffic.....	14,773,879	14,507,955
Transportation.....	319,380,898	342,364,345
Miscellaneous operations.....	5,936,138	7,066,328
General.....	56,679,260	54,895,727
Total operating expenses.....	700,021,499	734,556,041
Net revenue from railway operations.....	4,925,911	18,609,923
TAXES AND RENTS		
Railway tax accruals.....	17,466,769	16,573,037
Equipment rents—Net debit.....	1,634,395	3,856,235
Joint facility rents—Net debit.....	89,202	229,065
Total taxes and rents.....	19,190,366	20,658,337
Net railway operating income.....	14,264,455	2,048,414
OTHER INCOME		
Income from lease of road.....	45,351	45,362
Miscellaneous rents (net).....	1,432,538	1,256,902
Income from non-transportation properties.....	1,261,124	1,436,271
Hotel income.....	1,895,447	1,606,824
Dividend income.....	194,892	374,061
Interest income.....	3,687,046	2,919,346
Miscellaneous (net).....	968,162	1,323,308
Profit and loss— Net debit or credit.....	290,293	485,479
Total other income.....	9,194,267	9,447,553
Deficit or surplus before fixed charges.....	5,070,188	7,399,139
FIXED CHARGES		
Rent for leased roads.....	133,667	161,898
Interest on bonds, debentures and equipment obligations.....	33,872,693	24,766,117
Interest on government loans.....	11,097,583	11,049,277
Interest on other debt.....	345,388	308,155
Amortization of discount on bonds.....	1,071,905	686,233
Total fixed charges.....	46,521,236	36,971,680
Deficit.....	\$ 51,591,424	\$ 29,572,541

OPERATING REVENUES

	1958	1957
Freight Services		
Freight.....	\$545,230,647	\$587,273,516
Switching.....	5,628,254	6,131,342
Cartage and transport.....	3,924,527	4,895,000
Demurrage.....	2,157,349	2,857,482
Water transfers.....	1,569,081	1,579,867
Grain elevator.....	905,893	1,035,439
Wharves.....	623,803	917,919
Storage.....	225,683	271,706
Total.....	560,265,237	604,932,271
Passenger Services		
Passenger.....	41,492,781	46,818,462
Sleeping and parlor car.....	4,290,958	5,140,915
Dining and buffet car.....	3,401,765	4,455,867
Water transfers.....	524,769	523,359
Station, train and boat privileges.....	432,599	493,940
Restaurants.....	120,831	328,475
Baggage transportation and storage.....	213,901	258,275
Miscellaneous.....	16,181	16,309
Total.....	50,493,785	58,035,602
Express		
Express department.....		\$ 42,006,646
Railway Express Agency.....		603,694
Total.....	42,610,340	42,926,608
Communications		
Communications department.....	23,954,032	20,739,214
Commissions—U.S.....	8,496	10,846
Total.....	23,962,528	20,750,060
All Other		
Mail.....	10,378,342	10,549,873
Rents of buildings and other property.....	1,731,756	1,668,916
Joint facilities.....	353,901	242,073
Miscellaneous.....	15,151,521	14,060,561
Total.....	27,615,520	26,521,423
Total Operating Revenues.....	\$704,947,410	\$753,165,964

OPERATING EXPENSES

ROAD MAINTENANCE		1958	1957
Superintendence.....		\$ 11,642,469	\$ 11,281,130
Track and Roadway			
Track and roadway maintenance.....		47,297,331	50,891,829
Ties.....		778,289	804,457
Rails.....		2,875,275	1,807,532
Other track material.....		4,606,906	4,175,248
Ballast.....		189,703	253,455
Fences, snowsheds and signs.....		1,653,757	1,724,204
Small tools and supplies.....		2,538,593	2,623,916
Removing snow, ice and sand.....		5,723,758	4,569,254
Total.....		65,663,612	66,849,895
Bridges and Structures			
Tunnels, bridges and culverts.....		6,346,991	6,213,508
Station and office buildings.....		6,393,992	6,446,848
Roadway buildings.....		1,085,156	965,721
Water and fuel stations.....		918,339	1,183,283
Shops and enginehouses.....		3,821,396	4,097,208
Grain elevators.....		76,040	100,135
Wharves.....		353,818	406,524
Power plant systems.....		572,496	559,223
Other structures.....		66,100	36,336
Total.....		19,634,328	20,008,786

ROAD MAINTENANCE—Concluded

Communication and Signal Systems

Communication systems.....	11,498,079	10,430,743
Signals.....	3,007,752	2,845,769
Total.....	14,505,831	13,276,512

Miscellaneous

Roadway machines.....	4,053,986	3,638,469
Public improvements.....	980,156	821,458
Injuries to persons.....	985,625	987,251
Insurance.....	100,140	348,513
Stationery.....	182,345	186,662
Other expenses.....	1,481,906	1,362,632
Right-of-way expenses.....	84,027	83,335
Total.....	7,868,185	7,428,320

Depreciation and Retirements

Road property depreciation.....	38,055,747	35,164,598
Road property retirements.....	69,646	111,669
Dismantling retired road property.....	532,009	475,068
Total.....	38,657,402	35,751,335

Joint Facilities

Maintaining joint facilities— <i>Net Credit</i>	691,584	835,908
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Total Road Maintenance

	\$157,280,243	\$153,760,070
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EQUIPMENT MAINTENANCE

Superintendence.....	\$ 4,784,461	\$ 4,449,726
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Machinery

Shop and power plant machinery.....	4,326,327	4,605,407
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Equipment

Steam locomotives.....	11,661,212	19,028,457
Diesel locomotives.....	21,217,898	20,412,450
Freight train cars.....	41,081,683	41,009,254
Passenger train cars.....	19,294,237	17,953,771
Vessels.....	1,671,578	1,920,634
Work equipment.....	4,288,466	4,317,570
Express equipment.....	851,677	876,833
Cartage and transport equipment.....	575,027	1,634,121
Other equipment.....	53,371	63,148
Total.....	100,695,149	107,218,238

EQUIPMENT MAINTENANCE—Concluded

Miscellaneous		
Injuries to persons.....	765,236	859,308
Insurance.....	271,254	386,254
Stationery.....	158,045	160,144
Other expenses.....	1,478,306	1,367,819
Total.....	2,672,841	2,773,525

Depreciation and Retirements

Other equipment and machinery depreciation.....	1,538,372	1,482,909
Dismantling retired machinery.....	28,507	15,511
Dismantling retired equipment.....	429,773	414,600
Rolling stock and vessels depreciation.....	39,121,392	33,639,891
Supplementary dep'n.—steam locomotives.....	7,500,000	7,500,000
Total.....	33,618,044	43,102,911

Joint Facilities

Maintaining joint facilities— <i>Net Credit</i>	125,741	138,191
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Total Equipment Maintenance

	\$145,971,081	\$161,961,616
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TRAFFIC

Superintendence.....	\$ 5,198,919	\$ 5,044,429
Agencies.....	5,463,867	5,404,674
Advertising.....	1,955,534	1,975,586
Associations.....	298,228	301,606
Stationery.....	865,018	872,912
Other expenses.....	146,541	75,135
Total.....	13,928,107	13,674,392

Colonization and agriculture

Industrial development.....	333,032	338,495
Development and natural resources.....	340,974	329,504
	171,766	165,564

Total Traffic

	\$ 14,773,879	\$ 14,507,955
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TRANSPORTATION

Supervision		
Superintendence.....	\$ 9,265,234	\$ 8,775,943
Dispatching.....	4,636,460	4,611,505
Total.....	13,901,694	13,387,448

OPERATING EXPENSES—CONTINUED

	1958	1957		1958	1957
TRANSPORTATION—Continued					
Station Services			Casualty Costs		
Station employees.....	46,347,989	47,599,637	Insurance.....	104,312	356,615
Weighing, inspection and demurrage.....	220,251	195,987	Clearing wrecks.....	817,442	1,151,044
Coal and ore wharves.....	86,682	179,163	Damage to property.....	328,385	285,152
Station expenses.....	4,413,129	4,217,139	Loss and damage—freight.....	4,242,060	4,607,472
Total.....	51,068,051	52,191,926	Loss and damage—baggage.....	9,736	2,590
Yard Services			Injuries to persons.....	2,448,307	2,337,779
Yardmasters and clerks.....	11,464,234	11,672,167	Total.....	7,950,242	8,740,652
Yard trainmen.....	20,403,589	21,885,764	Joint Facilities		
Yard switchmen.....	1,793,613	1,868,026	Operating joint yards & terminals— <i>Net Credit</i>	284,595	602,062
Yard enginesmen.....	13,987,281	15,038,095	Operating joint facilities— <i>Net Credit</i>	659,940	702,860
Yard locomotive fuel and power.....	3,040,274	4,746,214	Total.....	944,535	1,304,922
Yard locomotive water.....	73,337	106,946	Total Transportation.....	\$319,380,898	\$342,364,345
Yard locomotive other supplies.....	327,850	339,626			
Yard enginehouse expenses.....	3,112,945	3,504,655	MISCELLANEOUS OPERATIONS		
Yard other expenses.....	441,904	493,021	Dining and buffet service.....	\$ 4,934,043	\$ 5,933,745
Total.....	54,645,027	59,654,514	Restaurants.....	126,839	324,473
Train Operations			Grain elevators.....	320,865	337,885
Train enginesmen.....	25,765,154	27,864,214	Other operations.....	554,391	571,225
Train locomotive fuel and power.....	30,208,805	40,507,705	Operating joint miscellaneous facilities.....	101,000	101,000
Train locomotive water.....	875,277	1,108,722	Total Miscellaneous Operations.....	\$ 5,936,138	\$ 7,066,328
Train locomotive other supplies.....	1,827,960	1,990,603			
Train enginehouse expenses.....	10,872,827	12,196,297	GENERAL		
Trainmen.....	30,628,973	33,012,319	General officers.....	\$ 1,206,027	\$ 1,105,944
Train other expenses.....	23,942,841	23,508,462	Clerks and attendants.....	14,256,484	13,640,198
Operating sleeping and parlor cars.....	5,298,689	5,996,557	Office expenses.....	1,518,429	1,376,751
Total.....	129,420,526	146,184,879	Law expenses.....	781,458	776,029
Miscellaneous			Pensions.....	36,500,000	36,000,000
Signal operation.....	\$ 888,976	\$ 940,494	Stationery.....	871,728	872,196
Crossing protection.....	1,850,341	1,904,051	Valuation expenses—U. S. Lines.....	14,395	14,396
Drawbridge operation.....	432,542	398,105	Other expenses.....	1,407,197	989,045
Communication system operation.....	14,203,046	14,226,270	General joint facilities— <i>Net Debit</i>	123,542	121,168
Operating vessels.....	10,513,089	11,087,249	Total General.....	\$ 56,679,260	\$ 54,895,727
Express department operation.....	28,833,772	28,825,673			
Cartage and transport operation.....	2,983,287	2,644,473			
Stationery.....	1,579,995	1,614,095			
Other expenses.....	2,053,945	1,869,438			
Total.....	63,339,893	63,509,848			

PROPERTY INVESTMENT STATEMENT

Property Investment at December 31, 1957.....			\$3,301,645,288
Capital Expenditures in 1958			
Roadway improvements.....	\$ 60,159,115		
Large terminals.....	14,387,853		
Communications facilities.....	14,443,996		
Roadway buildings.....	10,839,329		
Yard tracks and sidings.....	5,730,102		
Roadway and shop machinery.....	3,302,355		
Signals.....	3,934,965		
Highway crossing protection.....	402,362		
Line divisions.....	1,579,423		
Other facilities.....	1,583,416		
Branch Lines.....	9,808,097		
Hotels.....	5,946,907		
Equipment.....	114,400,742		
		\$246,518,662	
Deduction in respect of property retirements in 1958.....		51,428,710	
			195,089,952
Government of Canada investment in Canadian Government Railways			
Hudson Bay Railway—Entrustment.....	34,682,535		
Northwest Communication System—Entrustment.....	17,833,075		
Property retirements.....	1,545,660		
		50,970,050	
Purchase of Yukon Telephone Company Ltd.....		625,000	
			246,685,002
Property Investment at December 31, 1958.....			\$3,548,330,290

RECORDED DEPRECIATION STATEMENT

Recorded Depreciation at December 31, 1957.....			\$ 511,251,267
Add—Provision for depreciation for the year			
Road Maintenance			
Road property depreciation.....	\$ 38,055,747		
Equipment Maintenance			
Rolling stock and vessel depreciation.....	39,121,392		
Reversal of supplementary dep'n.—steam locomotives.....	7,500,000		
Other equipment and machinery depreciation.....	1,538,372		
Other Physical Properties.....	1,132,225		
		\$ 72,337,736	
Deduct—Charges in respect of property retirements.....	31,089,600		
Less—Capital losses charged to Shareholders' Equity—steam locomotives.....	7,000,000		
		24,089,600	
			48,248,136
Recorded Depreciation at December 31, 1958.....			\$ 559,499,403

LONG TERM DEBT

BONDS, DEBENTURES AND EQUIPMENT OBLIGATIONS

Rate %	Maturity (See Note)		Currency in which payable	Outstanding at Dec. 31, 1957	Transactions Year 1958 Increase or Decrease	Outstanding at Dec. 31, 1958
3½	July, 20, 1958	Canadian Northern Debenture Stock.....	{Canadian Sterling	\$ 5,315,545	\$ 5,315,545	
5	Nov. 15, 1958	Indebtedness to Province of New Brunswick.....	320,961	320,961	320,961	
3	Jan. 15, 1959 (a)	Canadian National 20 Year Bonds.....	Canadian	380,023	380,023	
3½	May 4, 1960	Canadian Northern Alberta Debenture Stock.....	Canadian	35,000,000		\$ 35,000,000
3	May 19, 1961	Canadian Northern Ontario Debenture Stock.....	Sterling	550,727		550,727
3	Jan. 1, 1962	Grand Trunk Pacific Bonds.....	Sterling	3,597,518		3,597,518
4	Jan. 1, 1962	Grand Trunk Pacific Bonds.....	Can.-U.S.-Stg.	26,465,130		26,465,130
2½	Feb. 1, 1963 (b)	Canadian National 8 Year 1½ Month Bonds.....	Can.-U.S.-Stg.	7,999,074		7,999,074
3	Jan. 3, 1966 (c)	Canadian National 17 Year Bonds.....	Canadian	250,000,000		250,000,000
2½	Jan. 2, 1967 (d)	Canadian National 20 Year Bonds.....	Canadian	35,000,000		35,000,000
2½	Sept. 15, 1969 (e)	Canadian National 20 Year Bonds.....	Canadian	50,000,000		50,000,000
2	Jan. 16, 1971 (f)	Canadian National 21 Year Bonds.....	Canadian	70,000,000		70,000,000
3	Feb. 1, 1974 (g)	Canadian National 20 Year Bonds.....	Canadian	40,000,000		40,000,000
2½	June 15, 1975 (h)	Canadian National 25 Year Bonds.....	Canadian	200,000,000		200,000,000
4	Feb. 1, 1981	Canadian National 23 Year Bonds.....	U.S.	6,000,000		6,000,000
4	Jan. 1, 1980	Grand Trunk Western Bonds.....	Canadian	300,000,000		300,000,000
5½	Perpetual	Buffalo and Lake Huron 1st Mortgage Bonds.....	Can.-U.S.-Stg.	400,000		400,000
5½	Perpetual	Debenture Stocks—Various.....	Sterling	795,366		795,366
5	Perpetual	Debenture Stocks—Various.....	Sterling	1,228,399		1,228,399
2½	Mar. 15, 1958	Equipment Trust Certificates—Series "S".....	Sterling	88,972		88,972
2½	Nov. 1, 1958	Equipment Trust Certificates—Series "T".....	Sterling	8,784		8,784
2½	Mar. 15, 1960	Equipment Trust Certificates—Series "U".....	Canadian	2,800,000		2,800,000
2½	Jan. 15, 1961	Equipment Trust Certificates—Series "V".....	Canadian	2,150,000		2,150,000
2½	Jan. 15, 1961	Equipment Trust Certificates—Series "V".....	Canadian	5,500,000		5,500,000
2½	Jan. 15, 1961	Equipment Trust Certificates—Series "V".....	Canadian	4,725,000		4,725,000
		Total Bonds, Debentures and Equipment Obligations.....		748,325,499	285,483,471	1,033,808,970
		Government of Canada Loans and Debentures				
	Capital Revision Act, 1952					
	Jan. 1, 1972	Debenture.....	Canadian	100,000,000		100,000,000
	Canadian Government Railways					
	Advances for Working Capital.....	Canadian		16,771,981	216,110	16,988,091
	Financing and Guarantee Acts 1954-1958					
	Temporary Loans	Canadian		290,638,431	5,841,709	284,796,722
	Refunding Acts, 1951 and 1955					
	Loans for Debt Redemption.....	Canadian		216,557,439	193,550,553	83,006,886
	Total Government of Canada Loans and Debentures.....			623,967,851	199,176,152	484,791,699
	Total Long Term Debt.....			\$1,372,293,350	\$146,307,319	\$1,518,600,669
	Note:—(a)	Callable at par on or after Jan. 15, 1954	(e)	Callable at par on or after Sept. 15, 1964		
	(b)	Callable at par on or after Feb. 1, 1961	(f)	Callable at par on or after Feb. 1, 1966		
	(c)	Callable at par on or after Jan. 3, 1961	(g)	Callable at par on or after Feb. 1, 1972		
	(d)	Callable at par on or after Jan. 2, 1964	(h)	Callable on or before June 14, 1962 at 101½; thereafter at varying redemption premiums.		

SHAREHOLDERS' EQUITY

Government of Canada			
No par value capital stock of Canadian National Railway Company.....	\$ 396,518,135	\$ 7,000,000	\$ 389,518,135
4% Preferred stock of Canadian National Railway Company.....	861,354,082	20,966,489	882,320,571
Capital investment in Canadian Government Railways.....	381,579,089	50,970,050	432,549,139
Total Government of Canada.....	1,639,451,306	64,936,539	1,704,387,845
Capital Stock of Subsidiary Companies Owned by Public.....	4,505,870	1,667	4,504,203
Total Shareholders' Equity.....	\$1,643,957,176	\$ 64,934,872	\$1,708,892,048
Total Long Term Debt and Shareholders' Equity.....	\$3,016,250,526	\$ 211,242,191	\$3,227,492,717

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCK OWNED BY GOVERNMENT OF CANADA

Company
number

1	{ Canadian National Railway Company (Common).....	\$ 389,518,135
	{ Canadian National Railway Company (Preferred).....	882,320,571
		<u>\$1,271,838,706</u>

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	Name of issuing Company	Controlled by company number	Capital stock issued	Owned by public
1	Canadian National Railway Company	see above		
2	Atlantic and St. Lawrence Railroad Company..	1	\$ 6,302,340	\$ 3,840
3	Canadian National Express Company.....	1	1,000,000	
4	Canadian National Hotels, Limited.....	1	29,257,700	
5	Canadian National Railways (France).....	1	1,886,114	
6	The Canadian National Railways Securities Trust.....	1	5 million shares	
7	Canadian National Realities, Limited.....	1	40,000	
8	Canadian National Rolling Stock Limited.....	1	50,000	
9	Canadian National Steamship Company, Limited.....	1	15,000	
10	Canadian National Telegraph Company.....	1	525,900	
11	Canadian National Transfer Company.....	1	500,000	
12	Canadian National Transportation, Limited....	1	500	
13	The Canadian Northern Quebec Railway Com- pany.....	1	9,550,000	3,849,200
14	The Central Counties Railway Company.....	1	500,000	12,000
15	The Champlain and St. Lawrence Railroad Com- pany.....	1	50,000	
16	The Great North Western Telegraph Company of Canada.....	1	373,625	6,825
17	The Minnesota and Manitoba Railroad Com- pany.....	1	400,000	
18	The Minnesota and Ontario Bridge Company...	1	100,000	
19	Montreal and Southern Counties Railway Com- pany.....	1	500,000	140,600
20	Montreal Fruit & Produce Terminal Company Limited.....	1	500	
21	The Montreal Stock Yards Company.....	1	350,000	
22	The Montreal Warehousing Company.....	1	236,000	2,153
23	Mount Royal Tunnel and Terminal Company, Limited.....	1	5,000,000	
24	The Niagara, St. Catharines and Toronto Rail- way Company.....	1	925,000	
25	The Quebec and Lake St. John Railway Company	1	4,508,300	489,160
26	The United States and Canada Rail Road Com- pany.....	1	219,400	425
27	Vermont and Province Line Railroad Company	1	200,000	
28	Yukon Telephone Company Ltd.....	1	62,500	
29	Central Vermont Railway, Inc.	1	10,000,000	
30	Central Vermont Transportation Company.....	29	200,000	
31	Duluth, Winnipeg and Pacific Railway Com- pany	1	3,100,000	
32	Duluth, Rainy Lake & Winnipeg Railway Com- pany.....	31	2,000,000	
33	Duluth, Winnipeg and Pacific Railroad Company	31	100,000	
34	Grand Trunk Western Railroad Company (Common)	1	20,000,000	
34	Grand Trunk Western Railroad Company (Preferred)	1	25,000,000	
35	Consolidated Land Corporation.....	34	64,000	
36	Grand Trunk-Milwaukee Car Ferry Company..	34	200,000	
37	Industrial Land Company.....	34	1,000	

\$4,504,203

In addition to the shares of the Canadian National Railway Company the Government of Canada has also invested \$432,549,139 in Canadian Government Railways. The Canadian Government Railways property is entrusted to the Canadian National Railway Company as part of the System.

OPERATED MILEAGE AT DECEMBER 31, 1958

	Owned	Leased	Trackage Rights	Total
First main track in Canada.....	23,027	36	195	23,258
First main track in United States.....	1,438	182	123	1,743
Total first main track.....	24,465	218	318	25,001
Other main track.....	1,170	—	83	1,253
Spurs, sidings and yard tracks.....	6,949	74	1,587	8,610
Total all tracks.....	32,584	292	1,988	34,864

INVESTMENTS IN AFFILIATED COMPANIES
NOT CONSOLIDATED

Company	Percentage Held	Investment at Dec. 31, 1957	Trans- actions Year 1958 Increase or Decrease	Investment at Dec. 31, 1958
The Belt Railway Company of Chicago				
Capital Stock.....	7.69	\$ 240,000		\$ 240,000
Advances.....		51,450	\$ 333	51,117
Chicago & Western Indiana Railroad Company				
Capital Stock.....	20	1,000,000		1,000,000
Advances.....		5,272,544	327,660	5,600,204
The Detroit & Toledo Shore Line Railroad Company				
Capital Stock.....	50	1,500,000		1,500,000
Detroit Terminal Railroad Company..				
Capital Stock.....	50	1,000,000		1,000,000
Northern Alberta Railways Company				
Capital Stock.....	50	6,818,000	1,050,000	7,868,000
Bonds.....	50	13,549,500	2,000,000	15,549,500
Advances.....		1,150,000	1,000,000	150,000
The Public Markets, Limited				
Capital Stock.....	50	575,000		575,000
Railway Express Agency, Inc.				
Capital Stock.....	0.6	600		600
Advances.....		173,493		173,493
The Shawinigan Falls Terminal Railway Company				
Capital Stock.....	50	62,500		62,500
The Toronto Terminals Railway Company				
Capital Stock.....	50	250,000		250,000
Bonds.....	50	12,120,000	599,600	11,520,400
Advances.....			193,715	193,715
Trans-Canada Air Lines				
Capital Stock.....	100	5,000,000		5,000,000
Debentures.....	100	20,000,000	6,500,000	26,500,000
Advances.....		32,000,000	24,600,000	56,600,000
Vancouver Hotel Company Limited				
Capital Stock.....	50	75,000		75,000
Total.....		\$100,838,087	\$ 33,071,442	\$133,909,529

SOURCE AND APPLICATION OF FUNDS FOR THE YEAR 1958

Source of Funds

Amount recoverable from Government of Canada in respect of deficit for the year (including \$48,000,000 received on account prior to December 31, 1958).....		\$ 51,591,424
Increase in Recorded Depreciation		
Provision for the year.....	\$ 72,337,736	
Less—Reduction in respect of retirements.....	24,089,600	48,248,136
Long Term Debt		
Increase in bonds, debentures and equipment obligations.....	285,483,471	
Less—Decrease in Government of Canada loans.....	139,176,152	146,307,319
Shareholder's Equity—Government of Canada		
Issue of 4% Preferred stock of Canadian National Railways.....	20,966,489	
Capital loss on retirement of steam locomotives charged against no par value capital stock.....	7,000,000	
Additional capital invested in Canadian Government Railways....	50,970,050	64,936,539
Decrease in working capital.....		17,703,398
Government of Canada current account.....		12,981,117
		<u>\$341,767,933</u>

Application of Funds

Deficit for the year.....		\$ 51,591,424
Property Investment		
Additions.....	\$246,518,662	
Less—Retirements.....	51,428,710	
	195,089,952	
Government of Canada expenditure on Canadian Government Railways.....	50,970,050	
Property of Yukon Telephone Company Ltd.....	625,000	246,685,002
Advances to Trans-Canada Air Lines.....		31,100,000
Other.....		12,391,507
		<u>\$341,767,933</u>

EQUIPMENT PLACED IN SERVICE DURING 1958

Motive Power Equipment

Diesel-Electric Units

98	1200 HP road-switching
64	1750 HP road-switching
73	1800 HP road-switching
17	1750 HP road-passenger
14	1800 HP road-passenger
1	250 HP switching*
26	900 HP switching
11	1000 HP switching

Electric Locomotives

8	300 to 600 HP electric locomotives*
9	400 to 900 HP electric locomotives*

321

78 Steam generator units

Freight Equipment

401	50-ton flat cars
2	60-ton depressed flat cars
2	137½-ton depressed flat cars
2	168-ton depressed flat cars
15	30-ton stock cars
1,150	70-ton triple hopper cars
200	70-ton gondola cars
13	40-ton longitudinal hopper cars
88	70-ton longitudinal hopper cars
80	30-ton refrigerator cars
205	50-ton refrigerator cars
20	30-ton air dump cars
12	cabooses

2,190

Passenger Equipment

2	coach cars
1	dining car
51	sleeping cars
32	baggage cars
5	unit cars—diesel railiner
6	unit cars—electric*

97

Work Equipment

10	diesel locomotive cranes—30 ton
2	Burro cranes—12-ton
1	diesel wrecking crane—60-ton
1	diesel wrecking crane—250-ton
1	Jordan spreader
5	Jordan spreader-ditchers
145	30-cu. yd. 50-ton air dump cars
3	unit car snow sweepers*
3	unit car line cars*
1	unit car work car*
4	work cars*

176

—*Electric lines equipment of subsidiary companies amalgamated with parent company in 1958.

INVENTORY OF RAILWAY EQUIPMENT

	On Hand Jan. 1, 1958	Placed in Service	Retired	Converted		On Hand Dec. 31, 1958	Orders Out- standing Dec. 31, 1958
				Added	Retired		
Motive Power Equipment							
Steam—Road Locomotives.....	1,192		193			999	
Steam—Switching Locomotives.....	252		37			215	
Electric Locomotives.....	33	17				50	
Diesel—Electric Units—							
Road—Freight.....	173				1	172	
Road—Passenger.....	88	31				119	32
Road—Switching.....	742	235		1		978	95
Switching.....	430	38	1			467	23
Total.....	2,910	321	231	1	1	3,000	105
Steam Generator Units.....		78		15		93	1
Freight Equipment							
Box cars.....	81,860		2,461		263	79,136	125
Flat cars.....	6,407	407	186		59	6,569	
Stock cars.....	2,765	15	74			2,706	
Hopper cars.....	6,517	1,150	150		3	7,514	467
Gondola cars.....	12,047	200	103		1	12,143	
Ore cars.....	1,649		6			1,643	200
Ballast cars.....	2,667	101	39			2,729	
Tank cars.....	25					25	
Refrigerator cars.....	5,211	285	76		7	5,413	
Air dump cars.....		20				20	
Caboose cars.....	1,853	12	58			1,807	
Other cars in freight service.....	1					1	
Total.....	121,002	2,190	3,153		333	119,706	792
Passenger Equipment							
Coach cars.....	979	2	30	13	5	959	
Combination cars.....	238		7			231	
Dining cars.....	104	1				105	
Colonist cars.....	68		3			65	
Parlor cars.....	76					76	
Cafe cars.....	18				1	17	
Sleeping cars.....	452	51			15	488	
Tourist cars.....	32				1	31	
Baggage and express cars.....	1,415	32	15		1	1,431	
Postal cars.....	56					56	
Unit cars.....	53	11				64	1
Other cars in passenger service.....	81		9		15	57	
Total.....	3,572	97	64	13	38	3,580	1
Work Equipment							
Units in work service.....	9,676	176	460	343		9,735	14
Floating Equipment							
Car ferries.....	8					8	
Barges.....	6					6	
Steamers.....	15					15	
Tugs.....	5	1				6	
Work.....	2					2	
Total.....	36	1				37	

STATISTICS OF RAIL-LINE OPERATIONS

	1958	1957
Train-Miles		
Freight service.....	37,507,065	42,073,087
Passenger service.....	23,075,444	23,820,127
Work service.....	2,149,598	2,240,263
Total train-miles.....	62,732,107	68,133,477
Locomotive-Miles		
Freight service.....	38,121,199	43,555,662
Passenger service.....	20,860,790	22,692,795
Train switching—Freight.....	2,822,898	3,288,334
—Passenger.....	90,431	113,725
Yard switching—Freight.....	15,795,607	17,612,051
—Passenger.....	1,750,574	1,808,085
Work service.....	2,241,965	2,320,934
Total locomotive-miles.....	81,683,464	91,391,586
Car-Miles		
Freight Service;		
Loaded freight cars.....	1,191,841,547	1,267,510,516
Empty freight cars.....	625,143,146	645,368,069
Passenger coach and combination cars.....	4,815,008	4,849,219
Other cars.....	12,652,979	11,918,313
Caboose cars.....	37,875,657	42,538,945
	1,872,328,337	1,972,185,062
Passenger Service;		
Loaded freight cars.....	1,256,302	1,475,497
Empty freight cars.....	171,597	60,746
Passenger coach and combination cars.....	49,211,066	53,798,538
Sleeping, parlor and observation cars.....	51,384,129	59,010,840
Dining cars.....	8,263,208	9,469,868
Motor unit cars.....	3,895,660	2,293,943
Other cars (baggage and express cars, etc.).....	89,737,555	93,789,200
	203,919,517	219,898,632
Work service.....	7,361,184	4,977,773
Total car-miles.....	2,083,609,038	2,197,061,467
Average Mileage of Road Operated.....	24,881.58	24,282.06
Freight Traffic		
Tons carried—Revenue freight.....	79,486,001	88,880,881
Ton-miles—Revenue freight.....	35,076,836,756	36,673,910,825
Revenue per ton.....	\$6.85945	\$6.60742
Revenue per ton-mile.....	\$0.01554	\$0.01601
Average haul (miles).....	441.30	412.62
Ton-miles—Revenue freight per mile of road.....	1,404,774	1,504,385
Ton-miles—All freight per mile of road.....	1,467,772	1,587,684
Gross ton-miles of cars, contents and cabooses.....	81,333,724,140	85,556,996,797
Net ton-miles of freight (revenue and non-revenue).....	36,521,092,001	38,552,235,048
Train-hours in freight road service.....	1,926,131	2,284,285
Gross ton-miles per freight train hour.....	41,764	37,017
Average speed of freight trains (miles per hour).....	19.5	18.4
Average gross load—Freight trains (tons).....	2,145	2,010
Steam locomotive miles per serviceable day (excluding stored).....	73	92
Diesel unit miles per serviceable day (excluding stored).....	215	223
Passenger Traffic		
Passengers carried.....	12,737,113	13,920,236
Passenger-miles.....	1,268,780,666	1,498,655,566
Revenue per passenger.....	\$3.25763	\$3.36334
Average passenger journey (miles).....	99.61	107.66
Revenue per passenger mile.....	\$0.03270	\$0.03124
Passenger-miles per mile of road.....	50,993	61,719
Percent on time arrival principal passenger trains.....	80.1	72.9
Steam locomotive miles per serviceable day (excluding stored).....	136	170
Diesel unit miles per serviceable day (excluding stored).....	435	485
Net Railway Operating Income		
Gross revenue per mile of road.....	\$28,332	\$31,017
Gross railway operating charges per mile of road.....	\$28,905	\$31,101
Net railway operating income per mile of road.....	\$ 573	\$ 84

REVENUE TONNAGE BY COMMODITIES

	Year 1953 Tons	Year 1957 Tons	Increase or Decrease	
			Tons	Percent
Agricultural Products				
Wheat.....	6,638,859	5,960,203	678,656	11.39
Other grains.....	3,408,176	3,426,355	18,179	.53
Grain products.....	3,300,170	3,315,126	14,956	.45
Fruits, fresh or fresh frozen.....	373,431	422,058	48,627	11.52
Vegetables, fresh or green.....	730,393	691,618	38,775	5.61
Other agricultural products.....	1,173,934	1,266,173	92,239	7.28
Total Agricultural Products.....	15,624,963	15,081,533	543,430	3.60
Animals and Animal Products				
Livestock.....	302,646	330,848	28,202	8.52
Butter, cheese and eggs.....	52,159	59,377	7,218	12.16
Fresh meats, fish and packing house products (edible).....	289,048	328,364	39,316	11.97
Other animal products (non-edible).....	152,602	199,923	47,321	23.67
Total Animals and Animal Products.....	796,455	918,512	122,057	13.29
Mine Products				
Coal.....	8,535,371	10,270,018	1,734,647	18.89
Coke.....	799,999	957,506	157,507	16.45
Iron ore.....	1,997,265	3,211,103	1,213,838	37.80
Aluminum ore and concentrates.....	464,498	542,785	78,287	14.42
Copper ore and concentrates.....	381,985	311,070	70,915	22.80
Copper-nickel ore and concentrates.....	1,343,524	1,849,341	505,817	27.35
Non-ferrous ores and concentrates (N.O.S.).....	1,385,981	1,475,673	89,692	6.08
Crude petroleum.....	271,370	502,652	231,282	46.01
Building sand, gravel and crushed stone.....	8,416,150	8,630,665	214,515	2.49
Crude gypsum.....	1,682,262	1,641,655	40,607	2.47
Other mine products (non-metallic).....	3,425,820	4,002,504	576,684	14.41
Total Mine Products.....	28,704,225	33,394,972	4,690,747	14.05
Forest Products				
Logs, posts, poles and piling (excluding cordwood and fuelwood).....	935,550	957,425	21,875	2.28
Lumber, timber and plywood.....	4,026,108	4,142,645	116,537	2.81
Pulpwood.....	3,505,414	4,962,465	1,457,051	29.36
Other forest products.....	208,803	276,080	67,277	24.37
Total Forest Products.....	8,675,875	10,338,615	1,662,740	16.08
Manufactures and Miscellaneous				
Iron and steel: pig, blooms and ingots.....	368,184	620,681	252,497	40.68
Iron and steel products (manufactured).....	637,792	772,985	135,193	17.49
Non-ferrous metals: matte, pig and ingot.....	1,051,139	1,063,442	12,303	1.16
Machinery, boilers and castings.....	310,371	388,209	77,838	20.05
Gasoline.....	2,237,256	2,395,292	158,036	6.60
Fuel oil.....	1,870,008	1,900,678	30,670	1.61
Other petroleum products.....	653,040	769,789	116,749	15.17
Cement.....	1,384,992	1,478,193	93,201	6.31
Plaster, lime, brick, building stone, tile and non- metallic pipe.....	719,261	697,615	21,646	3.10
Woodpulp.....	1,350,409	1,518,178	167,769	11.05
Newsprint paper.....	1,989,605	2,423,945	434,340	17.92
Paperboard, pulpboard and wallboard (paper).....	847,069	827,082	19,987	2.42
Paper other than newsprint.....	659,199	668,146	8,947	1.34
Beverages.....	337,496	371,123	33,627	9.06
Canned goods.....	766,381	775,807	9,426	1.21
Sugar.....	248,631	234,218	14,413	6.15
Agricultural implements and farm tractors.....	135,983	128,641	7,342	5.71
Automobiles, auto trucks and parts.....	1,750,779	2,087,884	337,105	16.15
Fertilizers.....	1,030,766	973,863	56,903	5.84
Scrap and waste metals.....	827,991	1,299,946	471,955	36.31
Chemicals and acids (N.O.S.).....	892,870	1,027,577	134,707	13.11
Miscellaneous carload commodities not specified above.....	4,701,108	5,500,505	799,397	14.53
Total Manufactures and Miscellaneous.....	24,770,330	27,923,799	3,153,469	11.29
All less than carload freight.....	914,153	1,223,450	309,297	25.28
Grand Total.....	79,486,001	88,880,881	9,394,880	10.57

A 25-YEAR SYNOPTICAL HISTORY OF THE CANADIAN NATIONAL RAILWAYS

Year	Operating Revenues (Thousands)	Operating Expenses (Thousands)	Net Operating Revenue (Thousands)	Taxes Rents and Other Income (Thousands)	Available for Fixed Charges and Dividends (Thousands)	Fixed Charges (Thousands)	Surplus or Deficit (Thousands)	Freight Revenue or Ton Miles (Millions)	Freight Revenue per Ton Miles ¢	Revenue Passenger Miles (Millions)	Revenue per Passenger Mile ¢	Average Number of Employees	Average Hourly Earnings per Employee \$
1934	\$164,902	\$151,936	\$ 12,966	\$ 3,152	\$ 9,814	\$ 58,222	\$ 48,408	12,950	.974	723	2.259	78,532	.563
1935	173,184	158,926	14,258	4,737	9,471	56,893	47,422	13,509	.990	770	2.162	79,044	.590
1936	186,611	171,478	15,133	6,204	8,869	52,172	43,903	14,814	.982	831	2.048	83,506	.590
1937	198,397	180,789	17,608	6,684	10,924	53,270	42,346	15,165	1.014	953	1.987	84,363	.613
1938	182,242	176,175	6,067	6,929	862	53,452	54,314	14,505	.964	892	2.030	79,940	.653
1939	203,820	182,966	20,854	7,461	13,393	53,488	40,095	17,084	.938	875	2.035	81,672	.652
1940	247,527	202,520	45,007	8,667	36,340	53,305	16,965	21,532	.904	1,125	1.929	86,366	.650
1941	304,377	237,769	66,608	9,450	57,178	53,162	4,016	27,200	.881	1,762	1.810	95,362	.682
1942	375,655	288,999	86,656	9,923	76,733	51,670	25,063	31,729	.909	2,708	1.784	100,651	.730
1943	440,616	324,476	116,140	28,311	87,829	53,190	35,639	36,327	.894	3,619	1.848	106,893	.763
1944	441,147	362,547	78,600	5,099	73,501	50,474	23,027	36,016	.893	3,697	1.888	108,278	.827
1945	433,773	355,294	78,479	4,713	73,766	49,010	24,756	34,600	.915	3,338	1.953	110,591	.832
1946	400,586	357,237	43,349	5,626	37,723	46,885	8,962	30,812	.975	2,289	2.190	109,809	.898
1947	438,198	397,123	41,075	11,034	30,041	45,926	15,885	32,945	1.040	1,845	2.332	112,801	.927
1948	491,270	464,740	26,530	13,721	12,809	46,342	33,553	32,943	1.195	1,755	2.368	115,395	1.064
1949	500,723	478,501	22,222	15,633	6,589	48,632	42,043	30,922	1.276	1,621	2.671	116,057	1.104
1950	553,831	493,997	59,834	15,673	44,161	47,422	3,261	31,988	1.394	1,408	2.834	116,347	1.133
1951	624,834	580,150	44,684	11,539	33,145	48,177	15,032	36,435	1.369	1,611	2.947	124,608	1.294
1952	675,219	634,853	40,366	14,809	25,557	25,415	142	38,430	1.397	1,635	2.964	131,297	1.425
1953	696,622	659,049	37,573	7,953	29,620	29,376	244	36,678	1.509	1,539	2.984	130,109	1.525
1954	640,637	626,465	14,172	10,403	3,769	32,527	28,753	32,882	1.529	1,472	2.973	122,237	1.550
1955	683,089	629,013	54,076	10,354	43,722	33,004	10,718	35,677	1.511	1,464	3.001	119,430	1.560
1956	774,801	703,394	71,407	13,637	57,860	31,783	26,077	41,935	1.461	1,501	3.054	126,639	1.645
1957	753,166	734,556	18,610	11,211	7,399	36,972	29,573	36,674	1.601	1,499	3.124	124,620	1.716
1958	704,947	700,021	4,926	9,966	5,070	46,521	51,591	35,077	1.554	1,299	3.270	113,086	1.798

The CHAIRMAN: First is Mr. Gordon's letter of Transmittal. Do you wish the letter read?

Mr. DRYSDALE: Dispense.

The CHAIRMAN: It is an indication that everybody here has read the report through carefully, anyway. Is it your wish that the president make a general statement as to that?

Mr. CHEVRIER: Mr. Chairman, I think it would be advisable if we had an introductory statement from the president, perhaps on the general economic position of the railway during the year 1958.

The CHAIRMAN: I think Mr. Chevrier's suggestion is well merited. What is your wish, gentlemen?

Agreed.

The CHAIRMAN: Mr. Gordon, you might give a brief statement of things in general, and then we will proceed with the report.

Mr. DONALD GORDON (*President, Canadian National Railways*): Mr. Chairman, before I commence, with your permission I would like to introduce Mr. S. F. Dingle, Vice-president, Operation, and Mr. J. L. Toole, Vice-president, Accounting and Finance. These gentlemen are at the table with me.

I did not have any general statement prepared along the lines you have suggested, but I would just like to point to the obvious fact that the year 1958 showed a very severe decline in revenue, by reason of traffic conditions generally. That situation is a reflection of the same circumstances that have affected all railways in the North American continent.

The reduction in the economy has a very special impact on the C.N.R. and on our net operations, affecting of course the deficit.

We have an operating plant which is built and ready to handle much more traffic than we were able to get during 1958. With our plant, if the volume of traffic had increased marginally, our financial results would have improved rapidly. On the expense side, of course, we are very mindful of the substantial element of stand-by costs that are present in any utility which has an obligation to provide for peak traffic. This obligation, of course, is one that is dependent on the degree to which the consumers of transportation have a choice in the means of moving every class of traffic, whether it is by highway or other competitive forms. More and more shippers have an alternative means of transport and it is the railway's business to try to reduce some of the cost burdens associated with the maintenance of stand-by and peak capacity.

One of the means we must employ in reducing expenses is to curtail unprofitable services and, if necessary, eliminate them. This may mean the closing of agencies, the reducing of train services, or even the abandonment of lines; and not infrequently it will call for some sacrifice of local pride or local convenience for an improved economy. Whatever the level of output may be, our general aim is to increase our productivity. That is what we are trying to do, in the form of large capital expenditures and in modernizing our techniques generally.

I think that is all I have to say, Mr. Chairman, as an introductory statement. Perhaps some of the points I have made could be dealt with in more detail as we go through the report.

Mr. CHEVRIER: Mr. Chairman, may I ask a question? I know it is difficult, in an introductory statement such as the President has made, to go into full detail as to the activities that affected the curtailment in revenue; but could the president point out some of the main fields where the reduction in revenue has taken place?

Mr. GORDON: I think, Mr. Chevrier, that if you turn to page 38 of the report you will see the actual statistics which show where the increase or decrease in the main items of tonnage took place. You will see it has been a fairly generalized decrease, and it is, of course, an obvious reflection of the fact that the North American economy slowed down in over-all activity during the year 1958.

This situation, I may say, has begun to show a welcome "upturn" in the course of the last month or so, and while I am not yet in the frame of mind to "throw my hat in the air", nevertheless it is beginning to show a definite improvement as compared with our figures last year. Our last returns, for March—which is the last month I have—show about a 12 per cent increase in revenue, as I recall it. Our car loadings are beginning to break about even; and for the first three months of the year our revenues show about a seven per cent increase.

Mr. CHEVRIER: What is the C.N.R. doing with reference to the severe truck competition that exists: is it giving consideration to the purchase of some companies, such as the C.P.R. is doing—or is that not under consideration?

The CHAIRMAN: Could I suggest this, Mr. Chevrier, with respect: we have the items dealing with that in the different stages of the report; they are over on the following pages. I was wondering if you could deal with them in the order in which they appear in the report, so we would not be overlapping. We could deal with each one specifically, and make better headway, paragraph by paragraph. Then we will get it in better order. Otherwise I can see possibilities of tremendous repetition, if we are not careful.

Mr. DRYSDALE: Mr. Chairman, I do not desire to be repetitive, but I am interested in the C.N.R. organization plan, and I was wondering if this would come under this general item, or if it would come in later; if so, when?

Mr. GORDON: Mr. Chairman, may I make a suggestion? It did occur to me that if we could get through the details of the report paragraph by paragraph, the very last paragraph deals with the year in perspective and the future. I think once you have been through the report, you would have the details and be able to ask question at the end, as sort of a general discussion. I make that suggestion only in the interests of order.

The CHAIRMAN: It is not my desire at all to curtail anybody's arguments, except that if we can get it in order and deal with it paragraph by paragraph, then before it is all approved we will naturally leave plenty of latitude. But I think we would make better headway and expedite our whole progress by following the report paragraph by paragraph at this stage as agreed. Therefore, let us deal with the first paragraph and the president's generalities.

Mr. FISHER: There is one question I would like to ask so we may get the thing later. On your table on page 39 you get a synoptic picture and we are all concerned with this picture of the employee pattern. I wonder if you could provide a breakdown for the last five years? We are getting attrition here and I would like to know whether it is on the operating or administrative side.

Mr. GORDON: A breakdown of employees by groups?

Mr. FISHER: Yes, to get an idea where the attrition is taking place.

Mr. GORDON: Yes, I will see what I can do about supplying that later.

The CHAIRMAN: As we all know, operating revenues have decreased 6.4 per cent below what they were last year. Any comments on that paragraph as such?

Mr. CHEVRIER: Where are you, Mr. Chairman?

The CHAIRMAN: Right at the start. Would you like the president to read that through for you?

Mr. FISHER: The swing in 1958 in so far as this is concerned is more and more, is it, to hauling low-value bulk commodities, and away from the higher-value shorter-run materials?

Mr. GORDON: Yes, I think in general that it is a fair statement, that the railway business is becoming more and more a wholesale operation of transportation in the sense of large volume, low revenue-producing traffic. That does not mean that Canadian National Railways' activities will be confined to that. If you have in mind the integration of traffic generally, we are preserving our higher value traffic as well.

The CHAIRMAN: I think we might take the first three paragraphs together as a general summary of the annual report as referred to by the president; then we can take the traffic and revenue and probably under that, Mr. Fisher, you would come in.

You see freight operating revenues have been down, they show a deficit of \$51.6 million.

Mr. CHEVRIER: I see, Mr. President, where the fixed charges have gone up fairly substantially from 1957. What has been the effect of the Capital Revision Act on the fixed charges? Is it working out as the Canadian National Railways anticipated in the beginning?

Mr. GORDON: Pretty well. The effect of the Capital Revision Act has been to relieve us of interest charges applying to old debt which came roughly to the annual amount of \$25 million. We continue to have relief in that respect, but the specific increase that you refer to here arises from other factors. First, we are steadily increasing our capital on which we have to pay the annual interest and secondly when we have floated any long issue bonds to repay government loans, which are short terms and are at a lower rate of interest than those which are placed on the market.

Actually, our general arrangement with the government is that we borrow from government short-term on the understanding that as soon as the public market for bonds is opportune we go to the market with Canadian National Railways' bonds and effect a sale. You may have observed there was \$150 million placed yesterday. The general effect of that always is that our short-term rate of interest with the government is lower than we are able to get on the long-term public market. Our fixed charges in that respect go up every time we float a public issue.

We had a \$300 million issue during last year. That is part of the reason for that increase in fixed charges.

Mr. DRYSDALE: Mr. Chairman, I was interested in this paragraph 3. One of the indicators which I think would be a good comparison of the Canadian National Railways is the ratio of the expenses to revenues. I notice that in respect of Canadian Pacific for 1957 and 1958, the ratio remained constant at 92.2 per cent whereas with the Canadian National in 1957, according to my computation, it was 96.2 and in 1958 it was 93.3. Also in comparing another ratio, the net earnings to gross revenues the Canadian Pacific in 1957 and 1958 was constant at 7.8 per cent, and according to my calculations the Canadian National Railways in 1957 was 2.5 per cent and in 1958, it was .69 per cent.

The CHAIRMAN: You are at what paragraph of the report now?

Mr. DRYSDALE: I am on paragraph 3, the ratio of expenses to operating revenues and the ratio of net earnings to gross revenues, in contrast with the Canadian Pacific Railway.

In other words, in both instances the Canadian Pacific remained constant as they state in their 1958 annual report:

The decrease in the volume of industrial production in Canada in 1958 contributed to a lessening of demand for many of your railway services. Nevertheless, your directors feel that the year was one of solid achievement. Real progress was made in the use of modern methods and the decline in revenue was matched by a proportionate reduction in expenses.

The CHAIRMAN: What page are you reading from?

Mr. DRYSDALE: I was reading from page 5 of the 1958 annual report.

The CHAIRMAN: Of the Canadian Pacific Railway?

Mr. DRYSDALE: Yes.

Mr. GORDON: I think it would be useful at this point if I made a general statement in regard to the comparisons with the Canadian Pacific Railway report. The situation is that you cannot take these two reports and find any exact comparison, because they are not made up on the same basis. Any attempt to try to put the figures for the Canadian Pacific Railway and Canadian National Railways on a comparable basis would involve various adjustments. For example, the Canadian Pacific Railway report takes into account user depreciation, and we use straight-line depreciation.

Mr. DRYSDALE: Have they not reverted to straight-line?

Mr. GORDON: They did on July 1, 1958; so that in future years you will get a better comparison in that respect. However, there were six months where they used user depreciation.

There is also an adjustment by reason of the particular entry last year of \$7½ million respecting steam locomotives depreciation which they did not have under the operating expenses. This affects the expenses in the Canadian National report. A lot of these things have to be adjusted to get a proper comparison of our expenses, because they are not on the same basis as the C.P.R. There is also the increased revenues in road transport and so forth. Under a comparable basis you find the Canadian National Railways' figures, on the basis of the Canadian Pacific Railway, come out so that we show a net operating deficit of \$4.6 for the year 1958 as compared with an operating profit in 1957 of \$23.6, whereas the Canadian Pacific Railway in 1958 had \$62.9 net as against \$69.9.

On those operating revenues that you have mentioned, with particular reference to the comparable percentage of revenues decline in the C.N.R. it was 7.3% and for the C.P.R. 4.1%. The figures for expense decreases of the two roads were about the same. That is, ours was 3.3 per cent and theirs 3.2 per cent. The general reason for that is that in the Canadian National year of 1958 our maintenance expenses were continued at about the same level as in 1957; resulting, as traffic fell, in a considerable deterioration in the maintenance ratio and an impact of \$27.8 million in net operating revenues. On the other hand, the Canadian Pacific Railway did reduce their maintenance expenses so that they had an impact of only \$6 million in that respect.

Now, there are some other matters in regard to the costs which show reasonable comparison on the two railways. The most important thing is that we did on the Canadian National Railways, as a matter of policy, continue our maintenance expenditures at about the same level as in the previous year and they cut their maintenance forces.

I hasten to add there that again, that has to be qualified, because as you look at the maintenance of the two railways you might ask me again, what is the need quantitatively in the respective railways. I do not want to leave

the impression that I am suggesting any criticism of the Canadian Pacific Railway for cutting their maintenance costs. It may well be they were in a position on their railway to have less maintenance than we did.

As an example, on the Canadian National Railways we have carried on, for several years, a rehabilitation program on our western region lines, a program coming to about \$47 million. We planned it on a six-year basis. Even though traffic fell we decided as a matter of policy that it would not be good business for us to reduce the program that we had embarked upon. It had all been established, we had that working force and it was all planned ahead. We decided to continue with that program.

Then also remember that the Canadian National Railways laid 1,112 miles of new and relay rail in 1957, and 1,188 miles in 1958, as compared with 653 and 547 respectively by the Canadian Pacific Railway. Remember also that the Canadian National Railways replaced almost twice as many ties as the Canadian Pacific did in 1958. Finally, we must always remember that the Canadian National maintains many more miles of thin traffic lines than does the Canadian Pacific Railway, so that you cannot get exact comparisons either of operating efficiency or actual dollar results by just taking the two reports there. There has to be a large number of qualifications in that connection.

Mr. DRYSDALE: You might say, therefore, as I gather, that the Canadian National is approaching very closely the same type of balance sheet set-up as the Canadian Pacific. I wonder if it would be possible in view of, for example, straight-line depreciation being brought in by the Canadian Pacific Railway to have in future annual reports a comparison of expenses and revenues and net earnings to gross revenues. I notice the Canadian Pacific Railway uses that, and with those warnings you have given us we can keep them in mind. Nevertheless I feel these are fairly good indicators of your ratios of expenses to revenue and it would facilitate reading your report.

Mr. GORDON: I think that is a useful suggestion. I will not promise to produce something without looking at it. I think that perhaps with qualifications we might produce something of that kind.

Mr. DRYSDALE: I asked that you would give it consideration. Similarly on page 39 where you show your synoptical history of the Canadian National Railways the Canadian Pacific Railway in their annual report has a similar history and they have a column devoted to ratios of costs to revenues. This is on page 33 of their report. They set out where the figures go from 20.6 in 1929 to the present 7.8 per cent. It gives you a fairly quick and accurate picture.

Mr. GORDON: We can certainly produce the figures, there is no question about that. As I have said, I always hesitate to do so because there has been no reasonable basis of comparison so far, but with more uniform accounting coming into effect and with both of us on a straight-line basis of depreciation, it might be more comparable than it has been in the past.

Mr. DRYSDALE: I realize there is not a true basis of comparison, but it gives us an indication from year to year.

Mr. GORDON: Some of these things I have mentioned have been a major factor, but I think in a year or two we will be on a better basis to make a valid comparison. One of the other reasons why this has not been valid up to the moment was that the Canadian Pacific Railway and ourselves were approaching by different means, complete dieselization. You can see that in a moment from the operating results in the transitional period. I believe now we are at about the same pitch, and I think we will finish our dieselization program at about the same time. So I will take a note of your suggestion.

Mr. CHEVRIER: You also have a large number of activities that are non-profitable operations, like passenger lines and branch lines and so on. Is the Canadian National Railways considering a program to abandon or to curtail those operations, which are losing operations?

Mr. GORDON: Yes, we have a very intensive examination of that general question in hand. We do intend to advance through the regular channels, namely, the Board of Transport Commissioners, several recommendations in respect of those lines but, as you know from your own experience, that is a slow, slow process and we have to investigate each particular item.

Mr. CHEVRIER: I suppose it would be out of order, would it, to highlight some of these?

The CHAIRMAN: What is that?

Mr. CHEVRIER: Those operations that you have in mind.

Mr. GORDON: I would not like to try to forecast representations that may be made to the Board of Transport Commissioners in the future. I think that would be imprudent.

Mr. CHEVRIER: I agree that that would be, but I wondered if there were some general descriptions you could give us. Is it the branch line operations that are of a more non-profitable nature than certain passenger lines, for instance?

Mr. GORDON: As I say, generally that would be true.

The CHAIRMAN: Would that not come through traffic and revenue?

Mr. CHEVRIER: Well, it comes out of a discussion that just took place on efficiency between the Canadian National and the Canadian Pacific. It is going to be very difficult to stick to the straight and narrow all the time.

The CHAIRMAN: Yes, it is. It is going to be very difficult to get through anything if we start in on generalities.

Mr. CARTER: Go through it paragraph by paragraph and have a general discussion at the end.

The CHAIRMAN: Anything further on the annual report?

Mr. FISHER: When you are getting this comparison suggested by Mr. Drysdale, I wonder if you could get one showing the ratio between freight revenue per ton mile and the employees' wages on a per capita basis to give us some idea of the difference between the two railways?

Mr. GORDON: Let me say this as a general comment, that anything produced—if it is being produced as a matter for general management of the railway—can be made available as well as what we also produce for the Bureau of Statistics. However, I found from experience, when I first joined the Canadian National Railways, that we were really in what could be described as a terrible mess, in regard to the innumerable statistics that had been produced as a result of casual questions over the years. Some of these materials that you refer to would call for very intensive examination; but to the extent that they come out as part of our recognized statistical data, then certainly we have no objection to producing any figures that any members of the committee would like.

The CHAIRMAN: Any other questions on 1, 2 and 3? If not, shall we proceed to "traffic and revenues"?

Mr. FISHER: On page 4 a very outstanding characteristic of the Canadian Pacific Railway annual report is the annual bleat about the Crowsnest Pass rates. I see nothing here in your annual report that goes into that. Would you care to comment on that? Is it because you are a government road and you

feel you should not make an issue here, or do you feel it really is not important; or is it because with the Canadian Pacific Railway the western region is much more important?

Mr. GORDON: I do not think I should be asked to comment on what motivates the Canadian Pacific Railway. I would be willing to give you our own thinking. I, of course, have views about the Crowsnest Pass rates, as well. We have always felt that so long as they were a part of the legislation of the country it was not part of the job of the management of the Canadian National Railways to comment on them. If and when we are invited to give our views before any duly appointed body, we are prepared to do so. However, we do not feel it is part of our job to conduct a campaign in regard to getting changes in legislation.

Mr. CHEVRIER: What is the proportion of Crowsnest rates in the revenue of the C.N.R. as compared with the Canadian Pacific Railway? How much more revenue is derived to the Canadian Pacific Railway from the Crowsnest rates than the Canadian National?

Mr. GORDON: There is a reference in the Canadian Pacific report to the amount of revenue they get from the Crowsnest rates.

Mr. DRYSDALE: Thirty-four per cent of all the freight services performed.

Mr. GORDON: That is on the Canadian Pacific Railway report.

Mr. FISHER: Mr. Chairman, I respect very much the views expressed by the president in so far as why they have not put forward anything in this particular regard. However, if I could just make a general comment; what we are getting developed is a one-sided picture of the Crowsnest Pass rates as something that is viciously unfair to one railway and it is an outright subsidization of a particular segment of the country. As long as the Canadian National Railways will not give its position to the public, it is a very one-sided affair. I think it would be interesting for us if we could get some indication of just how important the Crowsnest rates are to the Canadian National in respect to the traffic that is carried under them, and income that accrues to the Canadian National Railways.

The CHAIRMAN: The president, I think, has intimated that he might get what the figure is. However, his problem is to run a railroad and not run the government policy. It is government policy, and I can quite understand that he would not care to comment.

Mr. GORDON: Perhaps I might point this out, that there has just recently been announced the appointment of a royal commission in which I understand all matters of freight rates will be entered into in due course. There is also under discussion right now, a freight rate examination covering the \$20 million subsidy, and in both those inquiries there will be ample time for exploration of the point you mentioned. I think that is the appropriate place for us to express our views.

Mr. CHEVRIER: That is the difficulty, I doubt whether there will be, because I think when we get into a discussion of this subsidy of \$20 million we will be told we cannot discuss the terms of the royal commission. That is what I am fearful of, and that is probably why Mr. Fisher asked the question that he did.

Without drawing you out, I wonder if I can just ask you—

The CHAIRMAN: That sounds like wanting to draw him out without drawing him out.

Mr. CHEVRIER: I was getting away from the point altogether by asking if you could tell us what the revenue per ton mile of traffic on the Canadian National Railways is, as compared to traffic from the Crowsnest rates?

Mr. HORNER (*Jasper-Edson*): Do you not think first of all we should find out whether these rates are compensatory?

Mr. CHEVRIER: My question was leading up to that, to find out what is the difference in revenue per ton mile of grain moving on the Crowsnest rates as compared with other traffic of the Canadian National Railways. You say there is a fairly substantial difference in revenue?

Mr. GORDON: Let me ask the question for you and see if this is what you want.

Mr. CHEVRIER: I know how astute you are, Mr. President.

Mr. GORDON: I want to understand what you wish. Here is the question that I think you want to ask: "What percentage does the movement of grain and grain products at statutory rates bear to the total freight ton miles in Canada for the year, and what percentage of the total revenues." Would the answer to that question meet you.

Mr. CHEVRIER: I would be glad to have that.

Mr. GORDON: All right. The answer is we have the ton mile figure for grain only, we have an estimated revenue figure for both grain and grain products. The figures go as follows: for 1956, ton miles grain, 16.4 per cent; revenue for grain only, 5.7 per cent and the revenue for grain and grain products, 6.3 per cent.

The next question: "Have you the same figures for 1957 and 1958?" My answer is they are as follows: ton miles grain, 1957, 14.8 per cent; 1958, 17.1 per cent revenue for grain only, 4.7 per cent in 1957 and 5.5 per cent in 1958.

Revenue for grain and grain products, 5.4 per cent in 1957 and 6.2 per cent in 1958.

I can go on for 15 pages asking myself questions if you wish but I think that is the nub of it.

Mr. DRYSDALE: Mr. Gordon, what are the two figures comparable with the Canadian Pacific Railway figures on page 5 where they say in respect of "34 per cent of all freight service performed in 1958" that grain produced about 14 per cent of total revenue ton miles? In revenue for the Canadian Pacific Railway it is 14 per cent of the total freight revenue.

Mr. GORDON: Just one moment and I will get that for you.

Mr. CHEVRIER: While we are waiting may I ask the minister when we may expect an announcement of the terms, personnel and scope of the royal commission?

Hon. GEORGE HEES (*Minister of Transport*): I would think in the near future, Mr. Chairman. I am sorry; it is a very sensible and serious question, but I am afraid I cannot give it to you exactly.

Mr. CHEVRIER: We were told that exactly two weeks ago.

Mr. HEES: I am afraid I cannot change it.

Mr. CHEVRIER: Have you any indication of when the subsidy measure is likely to come up for second reading in the house?

Mr. HEES: It is at the committee stage. Not until the royal commission has been announced.

Mr. GORDON: The figure you are asking for is \$26.7 million of the revenue.

Mr. DRYSDALE: What percentage of revenue?

Mr. GORDON: It is 4.9 per cent.

Mr. CREAGHAN: While we are on the same subject, that is mentioned in paragraph 6 of the annual report. You state there that the revenue per ton-mile fell from 1.6 cents to 1.5 cents due to the fact that your grain movement increased while your other freight traffic decreased.

Mr. GORDON: Yes, that is right.

Mr. CREAGHAN: That is obviously the Crowsnest rates.

Mr. GORDON: That is a reflection of it.

Mr. HORNER (*Jasper-Edson*): Before we go any farther in this comparison of ton-mile figures, I would like to ask the president if he feels the ton-mile basis is a fair method of comparing the rates in various parts of Canada on various products?

Mr. GORDON: That gets into a pretty generalized question. I cannot give an offhand answer to that. You mean the protection given a policy agreement on a per ton-mile basis?

Mr. HORNER (*Jasper-Edson*): Well, the revenue and the cost per ton-mile. Contrary to what Mr. Chevrier said, we had three days of discussion with regard to the bill for the subsidization of freight rates and during those three days there was a major point made in the observation that we in western Canada enjoyed very favourable freight rates because our cost per ton-mile was so low that therefore our revenue per ton-mile was so low, and that we were in a favourable position. What I am now saying to you is that revenue per ton-mile and cost per ton-mile is not an adequate or fair method of comparing rates in the various geographical sections of the country or on various branches.

Mr. GORDON: I do not think there is such a figure available on a geographical basis, is there?

Mr. HORNER (*Jasper-Edson*): Well they had figures.

Mr. GORDON: From the truckers?

Mr. HORNER (*Jasper-Edson*): No, from the railways.

Mr. GORDON: On a geographical basis?

Mr. FISHER: Yes, they took the way bill analysis.

Mr. GORDON: I see what you mean. I do not think you can successfully make generalized comparisons of that sort. The only way you get any valid comparison in such a case is to make specific comparisons of traffic, because a generalized comparison of ton-miles will give you a generalized answer, and it does not pin-point the particular traffic.

Mr. HORNER (*Jasper-Edson*): That is the point I am trying to make.

Mr. GORDON: You are quite right.

Mr. FISHER: We can take it from the figures you gave that the Crowsnest profits, covered under that type of statutory agreement, are much less important to the Canadian National than to the Canadian Pacific in terms of revenue.

Mr. GORDON: In terms of revenue and traffic, it is not as important to the Canadian National as the Canadian Pacific because of the location of our lines.

Mr. FISHER: In your dealings with the railway brotherhoods, has there been any suggestion from them, as I know there have been to the Canadian Pacific Railway, that the Crowsnest Pass rates introduce an unrealism, let us put it, into the whole rail revenue picture and that they need an adjustment if we are to get a true picture of railway costs and also of what railway wages should be?

Mr. GORDON: I do not recall that the brotherhood made specific representations along that line. There is always reference to the Crowsnest pass rates. I have no hesitation in saying that I go along with the position that the

Crowsnest pass rates are unrealistic rates in the light of present day costs. But that is a general statement which should be proven. I think there should be work done on it.

Mr. FISHER: You cannot prove it?

Mr. GORDON: Yes, we can prove it. We will be able to prove it when we are asked, because we have, for some time, been engaged on a detailed study of what is involved in the cost of the movement of grain under the Crowsnest pass rates.

Coming back to the first question, I would not feel it would be correct for me, in my annual report, to start in with an analysis of that kind so long as the legislation exists on the books. It is only through an inquiry which might be made on the subject that we would be prepared to give the figures.

Mr. CHEVRIER: Did you not give any figure before to the former royal commission in connection with this matter?

Mr. GORDON: I do not recall if there were figures given; if so, they were of a very generalized character, and they went along the line that our average earnings were thus and so as applicable to the Crowsnest pass, but they did not compare with other earnings. That was a generalized statement again. What is so much needed in this country is a detailed analysis by the railroads of their actual costs in the handling of Crowsnest pass grain. That can be secured.

Mr. McPHILLIPS: I would like to ask a question. In the report that the president has just given, and the \$26.7 million for the hauling of grain, could he say whether on that operation they show a profit or a loss?

Mr. GORDON: That is the same question in another way, it seems to me. You are really asking me if I have cost figures which, when applicable to this section of our traffic, would show whether or not we produce a profit. My answer is that I do not have them available with me, but that they are the subject of study in a very detailed examination, and when it is appropriate to deal with them, we will be prepared and ready to deal with them.

Mr. FISHER: Would you agree that in order to get a clear picture of this matter in evidence that it would be sensible for the two railways to get together?

Mr. GORDON: Yes.

Mr. FISHER: To determine—

Mr. GORDON: Let me say that the two railways have been examining this problem, and that they will be in a position to produce cost figures which will give a realistic appreciation of what is involved in this Crowsnest grain generally.

Mr. CHEVRIER: Can you not go a step further? Do the railways not have the actual cost of moving grain in that area as compared to moving other commodities, and showing the cost per ton mile?

Mr. GORDON: May I put it this way: one of the difficulties that has always been present in thinking about Crowsnest pass rates has been that there has been disagreement in regard to the best method of establishing it. Perhaps it is not disagreement so much as points of view by various experts. But we have now reached an agreement as to what is a proper basis of examining what is involved in the cost of moving grain. That study has been under way.

Mr. CHEVRIER: Have you reached agreement on whether the rates are compensatory or not?

Mr. GORDON: In a general way, yes.

Mr. DRYSDALE: How would you define compensatory?

Mr. GORDON: I would define it as being sufficient revenue to cover the actual out-of-pocket costs.

Mr. CHEVRIER: What has been the decision as to whether or not it is compensatory?

Mr. GORDON: I do not think I would be prepared to go into that now, because I think I am getting too far out on the general subject without getting into definitions. But there are four or five different ways of calculating costs.

The first thing which would have to be done in any inquiry would be to have experts bring evidence to demonstrate what is involved in the single word "costs". That is something I could deal with in a general way, but it would take a long time, and I would want to have my experts with me.

Mr. DRYSDALE: I understand that Mr. Justice Turgeon in the report of his royal commission defined what you defined as compensatory as a sort of minimal cost, and what was included was out of pocket expenses.

Mr. GORDON: Railway cost accounting is one of the most complex subjects I know of, and that is saying a lot. A sort of cost approach that you would make would involve the volume of traffic such as the grain traffic, which might be, let us say, 50 per cent of the traffic in a given area in western Canada. That is a completely different thing than if you are considering one bit of traffic which involves an "incremental" cost; because the handling of a piece of traffic which will be loaded on a train which is already running is different than considering a great big section of the traffic such as the Crowsnest traffic. We would approach it, to start with, by looking for a suitable basis on which to establish costs. But the moment you start in to apply costing, you must consider not only your out of pocket—your actual running costs, but also the total costs which you would not have at all if you did not handle that amount of traffic.

You cannot make generalizations in regard to cost which takes this large segment out. There is no easy way of establishing costs.

Mr. DRYSDALE: Will the Canadian Pacific Railway and yourself be using the same basis, by way of definition?

Mr. GORDON: Yes. We will have the same basis of definition, and we will both be prepared as to the definition, and I think we would have no difficulty in defining it. I think the concept is a sensible one, and for the first time, I think it should attract public acceptance.

Mr. DRYSDALE: You mentioned \$26.7 million as the revenue from the grain rates, and you mentioned in paragraph six of your annual report that the average revenue per ton mile fell from 1.601 cents in 1957 to 1.554 cents in 1958. This was attributable mainly to an increase in the movement of grain, one of the lowest rated commodities carried by the railway. Did you have an increase in 1957?

Mr. GORDON: Which figure is that? A comparable figure for grain is \$24.2 million in 1957.

Mr. DRYSDALE: You got \$26.7.

Mr. GORDON: It is just about the same for the two years.

Mr. DRYSDALE: The Canadian Pacific would have about the same figure for the same period?

Mr. GORDON: About $4\frac{1}{2}$ per cent for 1957.

Mr. ROBINSON: In connection with item number four, I wish to say a few words. Mr. Chevrier asked a question earlier about non-producing lines. Could we have an idea of how some of this has been done in the past, and how it might be rectified. I would like to read a small extract from a letter from the secretary of the industrial commission of the town of Wiarton. Before I do so, let me say by way of groundwork that the company had applied to the Board of Transport Commissioners for the curtailment of this line. They were given permission. Then they were given notice that this line would be cut off for other than carload freight.

We were able to check up on the revenue of it since the old Grand Trunk started it. It was probably one of the lines that paid its way up to the present time, or until the last few years when they changed over to highway transportation. Let me read from the letter:

We ask the postponement based on the following:

(A) For over a year now some thirty five local merchants and citizens of the town of Wiarton have invested their moneys in the local furniture factory in order that same would not be scrapped, Wiarton's only industry of any size, and since this has been sold within the past week it certainly brightens the future of the town of Wiarton.

(B) The new purchaser of the Wiarton furniture factory, namely, Erle M. Martin, Plywood Associates Inc., 181 Labelle Blvd., Ste. Rose (Laval) Quebec, Canada, will be processing veneer in the Wiarton factory and it is then their intention to freight the veneer from Quebec for manufacturing purposes. No doubt you are in a better position than we to evaluate the size of the company in Quebec and also visualize what it could mean to your company with the factory located at Wiarton.

(C) Immediate cancellation of mixed train into Wiarton would, no doubt, curtail even the amount of freight coming by rail today since merchants feel if freight must come to Wiarton by truck, it might as well come all the way by truck.

That is all I shall read from it; but I would like to draw your attention to some of the remarks that the hon. Mr. Hees made in the house on April 28, in answer to a question.

Mr. CHEVRIER: Was this during the campaign?

Mr. ROBINSON: It was on April 28, 1959, and was part of an answer he was giving. He said:

The management of the railways advise me that for many years its industrial development branch has offered a specialized service to industry designed to assist plant location and expansion. This program is mainly directed to Canadian industry. As part of its endeavours to make Canada and the Canadian National Railways economically attractive to industry, there is currently a direct mail campaign being aimed at a carefully chosen list of senior executives of United States firms, with a view to interesting them in building plants in Canada...

I would like to remark that management might have advised that they are thinking of changing their way of looking after industry in Canada.

This is one great example of where the company is not trying to assist industry, unless it is under very favourable conditions. I am not blaming management altogether, but I do blame the Board of Transport Commissioners for not having enough foresight in permitting the company to curtail a line such as that.

Mr. GORDON: You get into this generalized question. Only a moment ago we got away from freight rates. The management of the railway is up against this problem every day, that when we talk about freight rates, everybody in the country yells about the freight rates being too high, no matter where they are. We then get into the spot where railway management tries to do something reasonable about it; then everybody objects to that, too.

I do not know of anything which gets more meticulous consideration than the application of a railway for the abandonment of any line. I therefore disagree completely with your suggestion that there is any lack of foresight or any lack of consideration of a local community, or of local community interests, when we consider an application for abandonment. Once the railway has the

right from the Board of Transport Commissioners to abandon a line, you can be pretty certain that we have proven our case twice over. Let me give you an illustration and it is an illustration only, of the points on which we have to satisfy the Board of Transport Commissioners when we go before them in connection with any abandonment of a line. Here are the factors which the board must consider.

Factors to be considered by the board.

1. We have to provide them with revenues for at least three years.
2. Expenses for at least three years.
3. Present train service; volume and type of traffic.
4. Estimated annual savings to the railway.
5. Distance between various stations on the line and other railway facilities and services in the area.
6. Alternative services for freight, passenger and mail—summer and winter.
7. Productivity of area.
8. Effect on freight rates.
9. Effect on employees.
10. Effect on property values and taxes.
11. Whether the population in the area is increasing or decreasing.

Furthermore, in any of our applications we do not abandon a service without the greatest regret. And when we do so, we do our level best either to provide alternative service or else to demonstrate that alternative competitive service is more than adequate to take care of what actually is required in the area.

In this Wiarton area I think they have very much more than that as part of the general service in the vicinity. A mixed train operates between Wiarton and Owen Sound. This began on June 22, 1958. Express and car load freight from Owen Sound to Wiarton, is handled by truck, on a daily basis except Sunday. This started July 2, 1958. My point is this: I do not think it is fair to the railway management or to the C.N.R.'s concept of things, to suggest there has been a lack of consideration for the local interest.

Mr. ROBINSON: Would you say it is fair in respect of Wiarton?

Mr. GORDON: It most certainly is fair. The industrial department of the Canadian National Railways stands ready at any time to provide any information to any industry intending to locate in Canada, whether from the United States, the United Kingdom, or from one part of Canada to another. We have made surveys of areas and if any area asks the railway we will provide them with all particulars of what is available in that area. We have been successful in locating industry. If it should happen, by chance, that we show a preference for towns or villages on the C.N.R. lines, it is purely an objective approach.

Mr. SMITH (*Simcoe North*): Would you not say that industries use both railways as sort of whipping boys to maintain freight and express services in certain places in order to get a better rate from trucking?

Mr. GORDON: Yes. I have no objections to that. We have to realize that; that is part of the economy. It also applies to water-borne freight, and even air. What is happening in the railway business is that over the years the railway goes into a community first. It extends service to the community. The community may be heavily dependent on the railway. Inevitably, however, there arises an agitation for a road and then there is competition. There is no loyalty to the railway. I am not complaining; I am dealing with facts. We cannot draw on the loyalty of the community and say, "We serviced you for fifty years in the days of your adversity; can we not now look to you?" They say, "Yes, but the trucker over here offers service for half the price."

The CHAIRMAN: I think it might be agreed that almost every member in the committee could point to cases where roads have been cut off. While I am glad you brought this up, Mr. Robinson, I think we would get off base if we start dealing with detailed cases. I have three or four in my riding which I could mention. There are many other areas in which the same thing applies. It has been well explained by the president, as to what factors are taken into account. If some of us think we have special cases in our specific area, it might be stated in terms somewhat similar to those we have seen in a book, that it may be a hell of a way to run a railway, but that is the way it is being run.

Mr. ROBINSON: It is a matter of policy?

The CHAIRMAN: That is the point I am making. I think the president has set out the policy, that from a standpoint of economy we cannot have it both ways. If we are to eliminate this deficit, it is a natural sequence of the policy that there must be hundreds of cases of short roads which will have to be disbanded along the line. It might look unfair to the community concerned, but I think it is the unbiased judgment of the commission.

Mr. CHEVRIER: I was going to inquire from the president if it is not the policy of the board of Transport Commissioners to hear these cases in extenso and make the railway prove its case substantially.

Mr. GORDON: Absolutely. If our industrial department can be of any assistance to any specific industry or any specific project in your area we will be only too happy to hear from you. Let us know about your problem, and if we can help we will be delighted to do so.

Mr. DRYSDALE: Returning to the average revenue per ton mile, I notice in 1957 this was 1.601 cents. When compared with the C.P.R., they have a figure of 1.50 cents for the same year. In 1958 you have 1.554 cents and the C.P.R. has 1.47 cents. This is one of the first instances in which the C.P.R. is below the C.N.R.

Mr. GORDON: That is a reflection of the Crowsnest pass rates. The C.P.R. handles more Crowsnest pass traffic than we do and our revenue per ton-mile is bound to be higher as a result.

Mr. DRYSDALE: That is just the Crowsnest pass?

Mr. GORDON: I would say almost completely.

Mr. CHEVRIER: Have you the revenue per ton mile from the Crowsnest pass rates?

Mr. GORDON: Yes; we have. It is just one-half cent; i.e. .49 cent. That is about a third of the average of the United States railways.

Mr. FISHER: Per ton mile.

Mr. GORDON: Yes.

Mr. HORNER (*Jasper-Edson*): For hauling the same product?

Mr. GORDON: Yes.

Mr. FISHER: Along with the C.P.R., you are planning to get these figures on the compensatory basis?

Mr. GORDON: Purely on a factual basis.

Mr. FISHER: Would these figures give in an historic way the margin between revenue and cost of the statutory grain rates? Do you think you will be able to get that in an historical way? That is, you will be able to go back?

Mr. GORDON: I would doubt that. I do not think we could pinpoint it in any past year, but could show the situation only as of today. This kind of analysis has never been made before.

Mr. FISHER: Could you get the figures which would show the total amount of indirect subsidization which has gone to the grain trade through the railways?

Mr. GORDON: It depends on your starting point. We can quite easily show the average earnings of grain year by year. If out of this analysis we arrive at a figure as to cost, then it might be a matter for application to this problem. Certainly, however, we would not be able to analyse it year by year on a historic basis because we do not have the base cost.

The CHAIRMAN: This is an annual report?

Mr. FISHER: Yes; but the point is we are putting through a bill for \$20 million which has been said to be a straight subsidy to railway labour. If we could get something which would show the subsidy to the grain trade we might get a fair approach to both sides of the question.

Mr. CREAGHAN: Would you say the subsidy was to railway labour or railway shippers? It seems to me it is subsidization to the shippers.

Mr. GORDON: I am not providing the \$20 million subsidy. I imagine Mr. Hees will know what he is attempting to subsidize!

Mr. HORNER (*Jasper-Edson*): Before we leave this business of the inference that the wheat growers in western Canada have been subsidized—

The CHAIRMAN: He is saying labour.

Mr. HORNER (*Jasper-Edson*): He was inferring a subsidization on wheat. The railways have had twenty-five years to prove that the rates are not compensatory. Certainly in central Canada, with the agreed charges, the Crowsnest pass rates are no more than that. If you are going to make some studies in respect of how much you are losing on the Crowsnest pass rates, then it should be fair to do some study in order to find out how much you are losing on your agreed charges.

Mr. GORDON: There is no agreed charge permitted to go into effect unless the railways first of all establish that it is compensatory. That is a fundamental requirement. That is the cost formula which is applicable to that traffic.

Mr. HORNER (*Jasper-Edson*): Is it the same formula which would be applied to the Crowsnest pass appraisal?

Mr. GORDON: Certainly that is what we are attempting to do.

Mr. DRYSDALE: In respect of the agreed charges, to whom do you have to show they are compensatory?

Mr. GORDON: The legislation specifically says they must be compensatory. Therefore, we are under challenge all the time.

Mr. FISHER: Is the list of agreed charges filed in every divisional office of the railway?

Mr. GORDON: I do not remember that point at the moment.

Mr. FISHER: That is what I understood.

Mr. GORDON: They are readily available.

Mr. FISHER: I have brought this up in the house with the minister in order to get the agreed charges, but I was told the information was not available. Then I asked this other question: are they provided at divisional points?

Mr. DRYSDALE: Could you point out to me where it says the charges must be compensatory.

Mr. GORDON: Offhand I cannot, but I know it is the principal.

Mr. DRYSDALE: I have not been able to find it. I have before me the relevant section of the Transport Act.

Mr. GORDON: All I know is we have to prove they are compensatory.

Mr. DRYSDALE: That is a rather vague definition. When we are on the matter of agreed charges, could you tell me what dollar value agreed charges have contributed to the C.N.R.

Mr. GORDON: Do you mean the percentage for the past year?

Mr. DRYSDALE: Of your total revenue?

Mr. GORDON: That is a figure I would have to look up—the total dollar value of revenue coming from agreed charges?

Mr. DRYSDALE: Yes, also what percentage that would represent.

The CHAIRMAN: With what are you comparing it? Is it only the figure itself or do you wish a comparison?

Mr. GORDON: I may have it here.

Mr. DRYSDALE: Just the percentage of your total revenue in respect of agreed charges.

Mr. GORDON: Estimated revenue under agreed charges was \$26 million for 1955, \$39.8 million for 1956, \$44 million for 1957 and \$55.6 million for 1958.

Mr. DRYSDALE: What percentage is that of your total revenue?

Mr. GORDON: We will have to figure that out for you. It is 10.2 for 1958.

Mr. DRYSDALE: What I am interested in is that the extension of the agreed charge seems to be greater year by year. I was trying to see what effect that was possibly having on your revenue.

Mr. GORDON: It is becoming more and more important each year and I expect it to continue. It is one of the most effective weapons which we have found from a competitive point of view. The general stand is that we make an agreed charge with any shipper who will undertake to ship a percentage of his product by rail, and then we will quote him a rate on that understanding. The rate varies in accordance with the percentage of his total shipments. We have to stand ready to make a similar rate available for any other shipper of the same product providing he is prepared to enter into an agreement.

Mr. CHEVRIER: That is particularly so since the legislation has been enacted. Your revenue has been almost doubled, from \$26 million in 1954 to \$55 million in 1958.

Mr. GORDON: Yes. The change in the legislation enabled us to quote rates quickly. Before that it took us a long time to see if the Board would approve it.

Mr. CHEVRIER: This is of help to the railway?

Mr. GORDON: Yes.

Mr. CHEVRIER: There is another matter, and that is the "piggyback" rates.

Mr. GORDON: Yes.

Mr. CHEVRIER: How are they working out since their inception? Could you give us some idea of the increase in revenue which has obtained to the railway in that respect?

Mr. GORDON: Mr. Chevrier, I wonder if you really want to press that question. You are asking me to divulge a competitive position which I would prefer not doing. However, I would say in a general way the business has been improving satisfactorily.

Mr. FISHER: Competition with whom?

Mr. GORDON: The C.P.R.

Mr. BROOME: I have a question in regard to the bridge subsidy. In that area in northern Ontario which does not generate traffic and connects the east and the west, is it not true that area is starting to generate traffic to an increasing degree; and would it not be true that the line through the mountains, from the time you leave Jasper until you come down into the Fraser

valley, is an equally non-productive area and could be considered a non-productive bridge between the prairies and the Pacific coast; in other words, two bridges?

Mr. GORDON: I doubt that. I think I am getting into a philosophical argument in regard to geographical areas, with which I could not deal.

Mr. BROOME: The point I am getting at is that the location of the bridge in northern Ontario is detrimental to shippers from the west coast.

Mr. GORDON: I think that could only be a matter of opinion; it cannot be proven.

Mr. BROOME: It can be, because the subsidized area is east of the prairies, which means that eastern manufacturers shipping into the prairies have the advantage of lower shipping costs as compared to west coast shippers.

Mr. GORDON: What I mean is that the philosophy of the bridge subsidy is not something the railways necessarily defend.

Mr. BROOME: No, I do not think it is.

Mr. FISHER: Could you give us some figures in regard to how much of the bridge subsidy your railway has gained in the last couple of years?

Mr. GORDON: The proportion of the \$7 million?

Mr. FISHER: Yes.

Mr. GORDON: I suppose we could dig this out. In 1958 we received what looks like \$3,352,505.

Mr. FISHER: That is almost an even split.

Mr. GORDON: Yes.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. MCPHILLIPS: Have you a breakdown of figures in connection with branch line revenue as against operating, in order to show whether branch lines paid?

Mr. GORDON: No, that would be a massive analysis; we could not do that.

Mr. MCPHILLIPS: You have not those figures?

Mr. GORDON: No, not line by line.

Mr. CARTER: Mr. Chairman, I have a few questions on freight rates. Does management have any freedom of movement in setting freight rates? Do you have upper and lower limits?

Mr. GORDON: We have in respect of competitive rates. The general rule is that the class and commodity rates are set by the board of Transport Commissioners and we can charge those rates. Generally, under the stress of competition those rates are reduced to meet competition; so technically we would have freedom to increase those competitive rates up to the ceiling any time we thought it would be practicable. But the governing force of that is the competition that forces the rates down.

Mr. CARTER: Well, is the rate approved by the board of transport the upper limit?

Mr. GORDON: Yes.

Mr. CARTER: You cannot go beyond that?

Mr. GORDON: We cannot go beyond the class and commodity rate upper limit.

Mr. CARTER: Does that apply to the Maritime Freight Rates Act?

Mr. GORDON: Yes.

Mr. CARTER: I have a problem here the operations of which I do not quite understand. A carload of freight originating in New Brunswick and, say, shipped to Corner Brook in Newfoundland, has a certain rate; I think it is

\$1.18 per 100 pounds. I presume that comes under the Maritime Freight Rates Act. But this is what I do not understand: if that carload of freight is imported from outside the country and landed at Saint John, New Brunswick, for trans-shipment to Corner Brook Newfoundland in addition to the \$1.18, you charge a 20 per cent overcharge and on top of that 7½ per cent terminal charge. Surely, that discourages freight from being trans-shipped or imported through the maritime provinces.

Mr. GORDON: There is something confusing in connection with this. If it was on a ship, I do not understand why they would not deliver it direct to Newfoundland.

Mr. CARTER: That might be. The ship calls at Newfoundland. It is routed through a shipper which calls at a maritime port.

Mr. GORDON: I would say this: I do not think I can undertake to deal with a question like that because I have learned from experience I must have the specific situation. If Mr. Carter will let me know specifically the type of shipment he has in mind, I will have it analyzed. But to make generalizations along those lines leads into all sorts of trouble.

Mr. CARTER: I can give you the details in a second.

The CHAIRMAN: As the president has intimated, I think we should be dealing with a matter of policy here because there are so many differences in competition between waterborne freight, railroads, highways and so forth.

Mr. CARTER: This has nothing to do with waterborne rates.

The CHAIRMAN: It may not have, but it opens up detailed issues which could be brought up, asking the president for an explanation.

Mr. CHEVRIER: Could we not allow Mr. Carter to state in a few words what the case is, and the president could get the information?

Mr. GORDON: I am stating. I cannot undertake to answer specific cases. However, if you will give me the particulars, Mr. Carter, I will have it analyzed and tell you the reason.

Mr. CARTER: Well, this is a shipment of 1,500 cases of canned apricots which came from South Africa and was shipped to Corner Brook on a through bill of lading via Saint John, New Brunswick. It was routed that way because the person buying the freight understood what the rate was and he expected the regular rate between New Brunswick and Newfoundland would be the same as if they were purchasing it in Saint John, New Brunswick. But when the goods arrived he found he not only had to pay the regular freight from Saint John, New Brunswick, which you would charge if it was purchased there, but a 20 per cent overcharge and an additional 7½ per cent terminal charge. Surely that is a matter of policy, because it affects the whole routing of freight through the maritime provinces and goods imported into Canada.

Mr. GORDON: By whom was the charge made?

Mr. CARTER: By the Canadian National Railways.

Mr. GORDON: Are you sure it was not a clearance charge through the harbour?

Mr. CARTER: Not according to my information. The Canadian National Railways submitted the bill for it.

Mr. GORDON: Yes, quite true, because we may have to pay the harbour charge to get it through. I will look into it, Mr. Carter, and let you know what the answer is.

Mr. CARTER: It is very important because no one in Newfoundland will ever import goods from outside and have them routed through Saint John, if they have to pay a 20 per cent higher rate.

Mr. GORDON: I have not a traffic expert with me this morning. I think it would have to be looked into.

Mr. CARTER: I can understand the terminal charge.

Mr. GORDON: I am just suggesting that; I do not know off hand.

Mr. CARTER: The terminal charge probably would be; but the 20 per cent is a straight increased overcharge.

Mr. GORDON: I will look into it and let you have the answer.

Mr. HORNER (*Jasper-Edson*): I would like to ask Mr. Gordon what their policy is with regard to advertising. Who does it? Do you have your own advertising department and, if so, how much money do you spend on it?

The CHAIRMAN: I think, Mr. Horner, that information will come at a later time under operating expenses. I would like to keep to traffic and revenues and then proceed from there to passengers.

Mr. FISHER: What is the present status, Mr. Gordon, in connection with your application for freight rate increases?

Mr. GORDON: The last application before the board of Transport Commissioners which was submitted by the Railway Association, has been postponed indefinitely.

Mr. FISHER: Who postponed it?

Mr. GORDON: It was postponed at the request of the railways.

Mr. FISHER: What was the railways' thinking?

Mr. GORDON: It had in mind the announcement not only of the \$20 million subsidy, which is under examination, but also the announcement by the government of the appointment of a royal commission; and in these circumstances we felt we should not proceed with the Board of Transport hearing until we saw what was required in that connection, because there would be a lot of information that would be of the same type. When I say "postponed indefinitely" that means, of course, the railways can ask for a hearing before that board and decide when to revive it.

Mr. FISHER: In connection with the period of postponement, is it not possible, with the customary time it takes a royal commission to look into these matters, it would delay getting the revenues that the applications indicate you need, and this may put you in a very difficult position.

Mr. GORDON: Yes.

Mr. FISHER: Have you any solution to this particular problem?

Mr. GORDON: No, I think we have to await the course of events, like everyone else.

Mr. CHEVRIER: How much were you asking for in the application?

Mr. GORDON: It was the balance.

Mr. CHEVRIER: You asked for 19 per cent in November.

Mr. GORDON: The last application was for 12 per cent.

Mr. CHEVRIER: How much in dollars and cents would that mean for the Canadian National Railways?

Mr. GORDON: As you remember, this is based on the Canadian Pacific Railway requirements formula. We can give you the mathematical result,—the estimate of what we can get.

Mr. CHEVRIER: Whatever that answer is, it is in millions of dollars, I take it?

Mr. GORDON: Yes.

Mr. CHEVRIER: How is your profit and loss position going to be affected by the fact you will not get the benefit of that additional revenue during the year 1959?

Mr. GORDON: That goes back to the same question in connection with our estimate of how much of a 12 per cent horizontal increase we can actually realize. My personal opinion is that we are almost on the borderline of whether or not we can get anything. The amount of traffic being affected by the impact of competition was so severe we had to surrender the full 17 per cent increase again and again.

Mr. CHEVRIER: On that point I wanted to ask you how much of that 17 per cent increase had to be decreased in order to save the traffic?

Mr. GORDON: A great deal. The yield on the 17 per cent is an estimated 9.3 per cent; but that is an estimate. We are not absolutely certain as to the actual working out of it, because we have not completed all the adjustments, but it would look to me it would be somewhat less, say between 8 and 9 per cent.

Mr. CHEVRIER: In connection with the 19 per cent case, you asked for an increase of 19 per cent in freight rates and you figure the effective result will be 9.3 per cent.

Mr. GORDON: Yes.

Mr. CHEVRIER: What do you do in the meantime to recoup the lost revenue?

Mr. GORDON: Let me put it this way. When we arrived at the figure of 19 per cent, we knew perfectly well it was not going to yield 19 per cent and, therefore, the figure we placed before the Board of Transport Commissioners was based on the amount of horizontal increase that would yield us approximately 9 per cent, which was the dollar result needed to break even.

Mr. CHEVRIER: Well, how does that affect your \$51 million deficit?

Mr. GORDON: You mean for the year 1958?

Mr. CHEVRIER: Yes.

Mr. GORDON: We had the revenue increase working only from December on, although we had retroactive costs in respect of the wage increase which had accrued up to that date, so it did affect the deficit in the sense that the deficit does include those portions of it.

What we figured out, you see, was the amount of freight rate increase which would yield us sufficient in dollars to offset the wage increase.

Mr. FISHER: There are getting to be shorter and shorter returns from freight rate increases?

Mr. GORDON: Yes.

Mr. FISHER: So in essence it is almost like a ritual dance, you are just prancing forward?

Mr. GORDON: Let us put it this way. What the railways are trying to do is to get freedom to increase rates to a point that will produce an adequate return. As you know, the Canadian Pacific Railway is commonly known as the yardstick railway in proceedings before the Board of Transport Commissioners. That yardstick came about by reason of the formula which was accepted by the Board of Transport Commissioners some years ago as to the amount of earnings the Canadian Pacific Railway needed to pay its dividends, look after its shareholders and so on. I have not got the figure in mind, but it is something like \$52 million. They have never been able to reach that point and therefore when we are planning these freight rate increases what we are jointly trying to do is to get sufficient freedom to increase rates where

the increase can actually be effected. My personal opinion is that we are practically at the point of no return in that a further freight rate increase is not likely to yield us revenue which would put real money in the till.

Mr. FISHER: What other areas do you turn to, then?

Mr. GORDON: There is no other area except to reduce our expenses. The other area is to reduce expenditures.

Mr. CREAGHAN: And subsidies?

Mr. GORDON: We have never asked for subsidies. Subsidies are paid to the shippers, not the railways. The subsidy is a payment for service. The railways do not get the advantage of it.

Mr. CHEVRIER: You said, Mr. Gordon, that the 19 per cent case which resulted in the 17 per cent freight rate increase was to offset the wage increases?

Mr. GORDON: Yes, sir.

Mr. CHEVRIER: What therefore is your present application for 15 per cent, I believe it is, now before the board, which has been postponed indefinitely?

Mr. GORDON: That has to do with the situation which I am describing. The Canadian Pacific Railway is still tied to its requirements under the formula, and we are jointly trying to get freight rates increased to that extent.

Mr. CHEVRIER: Have you been able to find out in dollars and cents what was the amount of that for the Canadian National Railways?

Mr. GORDON: We should have that.

Mr. CHEVRIER: It is 12 per cent rather than 15 per cent, as I stated it.

Mr. GORDON: I can say this, that on a generalized yardstick basis, we estimate that a 1 per cent freight rate increase would yield us about \$1,750,000 per annum in revenue. I am leaving aside the other qualification in regard to cents per ton on coal and that sort of thing, because that is a small amount. Generally speaking, we think 1 per cent will yield us about one and three-quarter million dollars.

Mr. CHEVRIER: That is a little over \$20 million?

Mr. GORDON: Yes.

The CHAIRMAN: I might interject a question here. It seems to me in regard to the figure of the "X" per cent increase in freight rates and what it will yield in future, the competition and so on can go past the point of no return very, very rapidly.

Mr. CHEVRIER: I know, but the railways can figure it out very carefully when they are asked by the Board of Transport Commissioners.

Mr. GORDON: That is right. I ought to add that the attrition factor is more and more all the time.

Mr. CHEVRIER: Could I follow that up? What would happen to the Canadian National Railways if during the year 1959 the application for 12 per cent is not heard and it does not get the required revenue of \$24 million or \$25 million?

Mr. GORDON: I will answer that this way. We find when we come to our operating budget another item for \$34.4 million deficit, and that does not include any provision for increased revenue under this application. In other words, if we get a further freight rate increase, and we do get more revenue out of the freight rate increase, it will reduce the amount of that deficit. If we do not, we do not. But in essence we will still have a \$30 million to \$35 million deficit.

Mr. FISHER: These freight rate increases, you have made the point, depend so much upon the formula that the Canadian Pacific Railway is the yardstick. Do you feel this type of approach for the Canadian National Railways is a proper one or a good one?

Mr. GORDON: Under the present circumstances it is the only one. So long as there is control of freight rates by the Board of Transport Commissioners then we must go through that procedure.

Mr. FISHER: Have you any other ideas, or does anyone else that you know of have any ideas of a new approach to this thing?

Mr. GORDON: Yes, I made a statement before the royal commission that is now commonly called the Gordon Commission. I would be glad to provide you with a copy of that.

Mr. FISHER: I think I know what it is.

Mr. GORDON: That, of course, is a personal opinion.

Mr. FISHER: We have been very interested in trying to get from the minister, and certainly encouraged by the Prime Minister, what the terms of reference of this royal commission will be. Now, you cannot very well express an opinion on that, but you could express some comments on the terms of reference and the performance of the last royal commission. I would suggest that might point up some of the things that it did not consider or did not consider fully enough.

Mr. GORDON: I am a bold man, but I would never suggest terms of reference of a royal commission.

The CHAIRMAN: I think you are getting far afield.

Mr. CREAGHAN: Mr. Chairman, I have one question. You have given us statistics that your agreed charges as a business are increasing very rapidly. When you give a contract to a shipper is it usually for a fixed term or for how long a period?

Mr. GORDON: No, I think most contracts run for three years. It might vary. It could be one, two or three years; some of them include an escalator clause, some do not. It depends on circumstances.

Mr. CREAGHAN: Would you agree that perhaps your increase in agreed charges might be attributable to the fact that you have reached this point of no return on these horizontal increases on class and commodity rates, and many, many shippers from time to time are going on agreed charges?

Mr. GORDON: I think there is some confusion about agreed charges. An agreed charge after all is simply a competitive rate. Agreed charges are basically competitive rates. We are trying, under certain conditions, to encourage or stimulate and retain traffic on the rails. If we get an assurance, depending on the percentage of the traffic, we will shade the rate still further. We quote a certain rate for, say, 60 per cent of the traffic and a better rate for 100 per cent. It is a tool, it is a bargain rate, a competitive weapon.

Mr. CREAGHAN: I am suggesting to the railway that you are getting more and more agreed charge contracts because of the fact that the horizontal rate increases have had an adverse effect on the class and commodity rates, and I also suggest—

Mr. GORDON: I do not quite follow that. We are getting more agreed charges for the simple reason that there is more and more trucking competition. It is just as simple as that. This is a weapon which more than anything else is a competitive tool to reply to the threat of competition from trucking.

Mr. CREAGHAN: Personally, I am very much in favour of agreed charges because I see this year as compared to last year you have had a substantial increase in the average length of haul and I am suggesting that perhaps agreed

charges might have had something to do with the average length of haul. Agreed charges should act as guaranteeing you a continuing source of customer and freight?

Mr. GORDON: Yes, and it enables us also to obtain more revenue, which enables us to carry the other rates which are a burden on us.

Mr. CARTER: Mr. Chairman, might I ask the president about this very formula which relates the maritime freight rates to the railway. Is the Maritime Freight Rates Act 20 per cent or 10 per cent lower than the other?

Mr. GORDON: The Maritime Freight Rates Act works on the basis that the rate quoted is less the amount of the subsidy, so the shipper gets the advantage of that. It is 20 per cent intra and 30 per cent for outward movements from the area. The basic reduction is for the benefit of the shipper.

Mr. CREAGHAN: Does it apply to agreed fixed charges as well as other rates?

Mr. GORDON: It applies to all traffic, no matter what it is.

Mr. DRYSDALE: Mr. Chairman, I have tried to get an answer to an earlier question I asked on agreed charges and I want to follow it up.

During this \$20 million subsidy hearing we had by the committee on railways, canals and telegraph lines, Mr. Fisher on page 31 asked in connection with agreed charges of Mr. Knowles who, incidentally, was a former freight traffic manager of the Canadian National Railways—

Mr. GORDON: Yes, but let me interject quickly that he does not speak for the Canadian National Railways.

Mr. DRYSDALE: No, I am just giving the background. He is a Commissioner of the Board of Transport Commissioners.

The CHAIRMAN: What are you reading from, Mr. Drysdale?

Mr. DRYSDALE: The committee hearing on the \$20 million subsidy.

The CHAIRMAN: Last year's?

Mr. DRYSDALE: No, this year's, two weeks ago, on the question of agreed charges. I asked Mr. Gordon as to whether agreed charges had to be remunerative or compensatory and he said that they had to. However, Mr. Fisher asked the question:

Mr. FISHER: Let us take a situation such as you have with agreed charges. Are most agreed charges supposed to be, or are they required to be, remunerative or compensatory?

Mr. KNOWLES: They were, under the original legislation; but they are not now since the act was changed in 1955. Practically the only thing we have to do with agreed charges is, they are filed with the board for information and the only time that we get into any question of the rates under the agreed charges is when some shipper complains that he ought to have the same rate, or a similar rate, somewhat a little higher or somewhat a little lower. Then we go into the whole story.

Then you made the statement that agreed charges are practically competitive rates, but competitive rates come under the board of transport commissioners where, according to Mr. Knowles, agreed charges do not. A little earlier you said that you had no control of freight rates by the board of transport commissioners. So can I take it from your statement that you feel that agreed charges should be brought back under the control of the board of transport commissioners?

Mr. GORDON: Well, I do not know what the reference is there. All I can say to you is that all rates are subject to appeal to the Board of Transport

Commissioners. I said earlier I thought that by the legislation the agreed charges had to be compensatory. I may be wrong on that, but the fact is that we know that an agreed charge is subject to challenge at any time.

Mr. DRYSDALE: By whom?

Mr. GORDON: By any shipper.

Mr. DRYSDALE: By a shipper; but your competition is with the trucker.

Mr. GORDON: Well, anybody has the right to appear before the board of transport commissioners.

Mr. DRYSDALE: But the truckers have not, have they?

Mr. GORDON: I do not know. I think the board ruled that they did not in respect of a freight rate.

Mr. DRYSDALE: Your situation comes down to this as far as truck competition is concerned. You can reduce your rates to practically any figure at all and effectively cut out any trucking competition at any point you wish, and the truckers have no possibility of making any representations or challenging the rates you are establishing?

Mr. GORDON: That is a legal opinion that I would not want to give.

Mr. DRYSDALE: Don't you agree with me that that is the situation?

Mr. GORDON: No, I do not.

Mr. DRYSDALE: What is the situation?

Mr. GORDON: Let me see what Mr. Knowles said. I do not know, but I am very suspicious of any paragraph, taken out of context especially.

Mr. DRYSDALE: I am not taking it out of context. Read all you want, in fairness. I was just trying to follow up your views.

Mr. GORDON: That is right. I suggest you are not reading Mr. Knowles correctly. Let me put it you are not interpreting what he said correctly.

Mr. DRYSDALE: I did not interpret, I just said what he said.

Mr. GORDON: My interpretation of what he said is that, under the original legislation, the railway could not put in an agreed charge without first of all appearing before the board and having the board confirm the rate.

Mr. DRYSDALE: Yes, there was a great deal of litigation on other agreed charges.

Mr. GORDON: Which resulted in serious delays and we waited six, seven or eight months before we could tell a shipper, "We can give you an agreed charge". That meant the bill was useless.

The legislation was changed so that the railways could, subject to their own motion and subject to agreement among themselves, almost put in an agreed charge and put it in almost immediately without going to the board for permission. Once the rate was in, then the ordinary rules applied.

Anybody who has a place can claim discrimination and claim it is an unfair rate and things of that sort.

Mr. DRYSDALE: What do you mean by "anybody"? Does that mean that truckers can do it?

Mr. GORDON: I do not know; that would depend.

Mr. CHEVRIER: I would like to ask a question on the truckers. Is it fair to compare the trucker to the railway, the railway being regulated by the board of transport commissioners and the truckers not being so. Is that not a distinction which one must make?

Mr. GORDON: The basic thing is any person at interest can appear, before the board of transport Commissioners. It is the shipper who is at interest here. If

any shipper brings a complaint before the Board of Transport Commissioners, the Board of Transport Commissioners is able to hear it. You are asking me to give legal opinions.

Mr. CHEVRIER: Let me pursue that, if I may. If a trucker, not as a corporate entity but as an individual, wants to appear before the board of transport commissioners and complain about an agreed charge or a competitive rate, has he not a perfect right to do so?

Mr. GORDON: That would be for the Board of Transport Commissioners to decide. They are the judges of their own jurisdiction.

Mr. CHEVRIER: Any individual can go before the board of transport commissioners and complain against a rate because it is non-compensatory, or for some other reason.

Mr. DRYSDALE: The trucker has not any status at all.

Mr. SMITH (*Simcoe North*): Is it not a fact that trucking companies can and do now make agreed charges with shippers every day for all types of cargo without having their agreements called into question by anybody?

Mr. GORDON: I have heard a great many remarks about what truckers do, but I am not going to give evidence.

The CHAIRMAN: Well, as a matter of fact, I know in all parts of the country they have fixed charges.

Mr. HORNER (*Jasper-Edson*): Have any agreed charges been postponed?

Mr. GORDON: I do not recall one, no.

Mr. HORNER (*Jasper-Edson*): Have they ever been upset because they were not compensatory.

Mr. GORDON: I do not recall that they ever were. That is, as a matter of fact, because they are compensatory.

Mr. HORNER (*Jasper-Edson*): Well, I doubt that very much.

Mr. GORDON: Well, they have to be made on that basis.

Mr. HORNER (*Jasper-Edson*): According to what Mr. Knowles told us the other day.

Mr. GORDON: I am giving evidence for the Canadian National Railways and I am telling you our agreed charges are compensatory and we are prepared to defend them at all times.

The CHAIRMAN: If you have ever paid as many as I have you would think they were compensatory.

Mr. CHEVRIER: If you have to pay for them I presume they are.

Mr. DRYSDALE: Mr. Knowles on the same page defined three definitions of compensatory, I think, using the word "compensatory" in this point any way at all, whether it is out-of-pocket expenses or covering overhead, and so on.

Mr. GORDON: To put it simply, it means we make some money out of them over and above our costs.

Mr. DRYSDALE: The point I was trying to raise on agreed charges in connection with trucking was we have the situation where the basic complainant under the act is the shipper. When you are establishing the agreed charge that takes it out of control of the board of transport commissioners but entirely within the jurisdiction of the railway.

The CHAIRMAN: It is subject to appeal, though.

Mr. DRYSDALE: By whom?

Mr. CHEVRIER: By the shipper.

Mr. DRYSDALE: If I can follow your argument, I understand the shipper but I am interested in the trucker who is in competition with the railway on certain things.

Mr. GORDON: Do you know of any procedure whereby the railways can challenge a trucker's rate?

Mr. DRYSDALE: No, but the point I was trying to get down to, if I could eventually, was the fact that the truckers at present have not the opportunity to challenge the rates as to whether or not they are compensatory. I was wondering if you think they should be permitted, that the legislation should permit them to have right to appeal?

Mr. GORDON: Not unless it was a quid pro quo proposition. If you give the railways the right to challenge the trucker's rates, then you must give the truckers the right to challenge the railway's rates. The board is the judge of its own jurisdiction.

Mr. CHEVRIER: Could I ask this question? Is it not a fact that representations along the lines mentioned by Mr. Drysdale were made to the royal commission on transportation, the Turgeon commission. The Turgeon commission, after careful hearing, decided against the amendment of the Transport Act in order to allow the truckers to come in and file rates and be heard?

Mr. GORDON: I can give you something up-to-date, a little more recent than that. It has been later agreed upon. There was a case in western Canada sometime—I speak subject to correction on detail—but there was a case in western Canada where rates were quoted by the railways. These were not agreed charges but incentive rates that were quoted by the railways there in western Canada. The truckers challenged those rates as being non-compensatory and discriminatory. They appeared before the Board of Transport Commissioners who ruled that the truckers did not as a matter of jurisdiction have the right to appeal railway rates; but at the same time the board gave notice that of its own motion it was going to conduct an investigation, and they did. The board, of its own motion investigated these railway rates and the board's examination revealed that those western Canadian rates were fully compensatory to the railway, and also that they were not lower than sufficient to meet the competition.

You will find that in the judgment of the board on November 12, 1958, and I will be glad to give you a copy of it.

Mr. DRYSDALE: In the Turgeon Royal Commission on Transportation in 1949 they said the estimated revenue for agreed charges for a full year was slightly over \$8 million, and that was for both railways in Canada. It rose to about \$20 million and you gave the figure of approximately \$58 million.

Mr. GORDON: Yes.

Mr. DRYSDALE: I was wondering whether those increases in the figures on the agreed charges might not be compensatory, depending on the definition that you have. This is subsidized; in effect the taxpayer pays the subsidization and this amount of agreed charges I say is entirely to offset competition of trucking.

Mr. GORDON: No, sir, that is a completely wrong interpretation. The contrary is true. Let me remind you once more that the agreed charges procedure is competitive and by definition—

Mr. DRYSDALE: If it is a competitive rate it is under the control of the Board of Transport Commissioners, and it is not under their control.

Mr. GORDON: No, that is not so.

Mr. DRYSDALE: You said you did not know before.

Mr. GORDON: No, but I am saying the Board of Transport Commissioners of its own motion can always investigate a rate, and the point of the thing is

that we, by agreed charge procedures, are getting traffic that we otherwise would not. We are making money out of it and that places us in a better position in respect of our deficit generally, which you are referring to as the taxpayer. If we did not have that traffic we would have less profit.

Mr. DRYSDALE: I realize that, but the essence is that you have taken agreed charges completely unto yourself and out of the jurisdiction of the Board of Transport Commissioners.

The CHAIRMAN: He said the opposite.

Mr. DRYSDALE: I know he said the opposite, but when I asked him before he said he did not know.

Mr. GORDON: What happens is, the railway gets together with the shipper and arrives at an agreement on the charge. That agreed charge is filed with the Board of Transport Commissioners for their information and also so that if they have any views on it, as they did in regard to this western rate case, they can examine it any time they wish. Any shipper can challenge if he wishes to do so. You say truckers should have the right to challenge a rate quoted by the railways; I disagree completely. If the situation was that the truckers were also under regulation and had to publish their rates and there was a mutual right of challenge, then I go along; but I see no reason why the truckers should be allowed to snipe at the railway rates through the Board of Transport Commissioners when we take some traffic away from them. Agreed charges do not always take traffic away. It starts off retaining business that was not handled by the trucks.

Mr. DRYSDALE: Assuming that hypothetically I am right, that the Board of Transport Commissioners has no control over agreed charges, then do you still maintain your earlier statement that the control of freight rates should be within the Board of Transport Commissioners? Then would you agree that the Board of Transport Commissioners should have a greater degree of control over agreed charges?

Mr. GORDON: I am sorry, I have not been able to follow your question. I just do not understand it.

The CHAIRMAN: What you wish to infer is that there is an inference that the railways under agreed charges occasionally operate at a loss to cut the trucker out of business?

Mr. DRYSDALE: They could, yes.

Mr. GORDON: They could, but I am saying they do not.

The CHAIRMAN: Unless that is the inference, I cannot see where we are getting.

Mr. DRYSDALE: That is a definite inference.

The CHAIRMAN: I do not know how you would arrive at it, because it would be very difficult. Some places there are all sorts of situations and so on.

Mr. DRYSDALE: I believe we had the statement that there was an increase in agreed charges where the Canadian National Railways has approximately \$58 million and we had the statement by Commissioner Knowles that agreed charges did not come within their control. If it was a competitive rate then they would have control.

Mr. GORDON: I do not agree that that is correct completely. In fact, if you will examine the legislation, an agreed charge is filed and does not go into effect for a period of twenty days. The only point in your question was that you are saying truckers should have the right to challenge any agreed charge, and would deny that! I think it would be very unfair.

Mr. FISHER: Unless you could challenge them?

Mr. GORDON: Yes.

Mr. HEES: Is there any control over the rates the trucking firms can charge?

Mr. GORDON: No.

Mr. DRYSDALE: There is provincially, in British Columbia.

Mr. HEES: If that is the case, the railways have no right of recourse, as I understand it, against cutthroat rates that truckers can charge to put the railway out of business in a certain section; and yet the truckers are asking for the right to do exactly the same thing.

Mr. DRYSDALE: The reason I raised the problem is that first of all, I realize the railways come within federal jurisdiction. Trucking is actually a provincial matter; but the railways operate at a deficit, they come back to the people and say, "We want more money in the future in freight rate revenues." I am interested therefore in finding out whether in essence agreed charges are compensatory or not. It does not look as if they are, due to the fact that there has been this tremendous increase in agreed charges which, contrary to what Mr. Gordon says, is not under the Board of Transport Commissioners.

Mr. HEES: But Mr. Gordon has said they are competitive.

Mr. GORDON: My point, Mr. Minister, is this. This was a statement, not a question. I should not like the statement to go on the record without my stating very simply that if we had not had the \$58 million from agreed charge revenue in 1958, our deficit would have been substantially greater than it is. That then is the answer.

The CHAIRMAN: That is surely the answer.

Mr. HEES: Could I ask a question. Does Mr. Drysdale think there is anything to stop the truckers from cutting their rates, where they are running into heavy competition, in order to take money away from the railways? Is that not correct?

Mr. DRYSDALE: Yes, but let me point out that we as taxpayers are not subsidizing the rates. We have no control over their agreed charges.

Mr. HEES: But Mr. Gordon has said, first, that agreed charges are compensatory and, secondly, he has made the direct statement that the deficit on the taxpayers of Canada would have been substantially larger if these agreed charges had not been in operation last year.

Mr. DRYSDALE: You took the business away from one group to give it to another group.

Mr. GORDON: No, I deny that.

Mr. HEES: I am saying the trucking industry is free to go out and quote any rates they want, and you are asking them to be free to do that, yet the railways are not free to quote competitive rates against them?

Mr. DRYSDALE: That was not the point, but I am not going to labour it any more.

Mr. GORDON: Mr. Minister, in most cases the agreed charge is made for the purpose of keeping traffic on the rails that is already there, and we are responding to the challenge of competition. In many cases we are retaining on the rails the traffic which was there in the first place.

Mr. CHEVRIER: And if anyone feels that the agreed charge is not compensatory he can ask the board to hear the case.

Mr. DRYSDALE: Any shipper.

Mr. GORDON: Any shipper, yes.

The CHAIRMAN: I think anyone can. Even I can go to the board.

Mr. CHEVRIER: My understanding is, if I want to challenge as an individual any of those agreed charges I can go before the board and show reason why, because it is a court of record.

Mr. DRYSDALE: I think you are wrong. That is news to the commissioners.

Mr. FISHER: In reference to the case in question that you mentioned, I got the impression from reading it that the truckers rather took a considerable amount of analyses of the railway charges in order to see where they stood and how the railway competition was being applied. They are conscious of what you are trying to do. I want to know if you are taking some steps to be familiar with what they are doing?

Mr. GORDON: Subject to this, that it is very difficult to get information. In the case of the railways we are obliged to reveal our statistics in such a way that anyone can get the information. But I would add this as a footnote, if I may. The fact that the truckers are becoming concerned and alarmed about the business is the best news I have heard. There was no squealing five years ago, but there is today. If we are hurting them, so be it.

Mr. FISHER: Some of the complaints I get from people who have to deal with truckers is that they hide under the umbrella of railway rates.

Mr. GORDON: That is right. They have to do that, because we have an established rate and they can make bids to a shipper on merchandise and start in underneath that rate, whatever the competitive rate says. But we do not know what their costs or charges are. We try to get information. With regard to the incentive rates I have mentioned, they are based to the best of our knowledge on truck costs. We have deliberately gone out and made our own analysis of what the truck costs ought to be, and then we are quoting a rate which is close to that or underneath it, subject always to our own analyses that we are getting a compensatory return.

The CHAIRMAN: I think it is a good sign. Competition is the life of trade and is part of free enterprise.

Mr. FISHER: The truckers are organizing a federation of a kind based upon the provincial organization. I gather that amongst the members at the provincial level are a number of trucking companies controlled by the C.P.R. Have you any representation, in so far as trucking rates and costs are concerned, on the provincial associations of the truckers?

Mr. GORDON: No.

Mr. CHEVRIER: How far have you got with reference to the purchasing of trucking operations in Prince Edward Island?

Mr. GORDON: We have been developing our trucking operation as best we can on our own resources. We have had a number of discussions and offers in respect to trucks. We have not yet, however, arrived at a point of buying out any trucking organization, because we find—as is usually the case—that the minute the C.N.R. indicates an interest, the price is doubled, trebled, or quadrupled, and we are not prepared to pay that.

Mr. CHEVRIER: Are you operating trucking facilities in Prince Edward Island?

Mr. GORDON: We have quite a number of trucking operations, as a matter of fact.

Mr. CHEVRIER: Could the committee get a general idea of what trucking operations the C.N.R. owns?

Mr. GORDON: Yes, I can tell you that in a moment. We have quite a number of trucking services which are sort of collateral to railway services. They run into scores, and I need not mention them. But we have several

pages here of l.c.l. and express deliveries, for instance, that have been developed in the Atlantic region and our central region, and a few in the western region. Would you like me to put those on the record?

Mr. CHEVRIER: I do not think you need read them, but perhaps we might have them as an appendix.

Mr. GORDON: There are three pages of them, and I would be glad to put them right on the record. They are the class of service we are operating right now.

Mr. CHEVRIER: How are they divided into provinces?

Mr. GORDON: They are heavier in the Atlantic region at the moment, for special reasons of legislation, permits and things of that kind. But they are mostly along the lines of l.c.l. and express at the moment. We have nothing equivalent to the C.P.R. Smith Transport at the moment.

Mr. FISHER: What is the relationship with Kingsway Transport?

Mr. GORDON: Very good, we get some business with them. Kingsway Transport is operated and controlled by Canada Steamships.

Mr. FISHER: There is no truth in the rumours that I hear, that in fact it is a Canadian National subsidiary?

Mr. GORDON: I wish there were. It is not true. Perhaps I should not have said that; perhaps they will be trying to sell it to me.

Mr. SMALLWOOD: Mr. Gordon, I would like a little advice on this matter. In an area where the trucking association, or the trucker, is charging 50 cents a hundred and getting the business, and where you are charging 65 cents a hundred, could you become competitive, or are you bound by the Board of Transport Commissioners' ruling?

Mr. GORDON: We could become competitive, depending on whether or not it is a compensatory rate.

Mr. SMALLWOOD: Then why are you not becoming competitive? Why have you not done that?

Mr. GORDON: We have done that.

Mr. SMALLWOOD: In our community you have an agent covering our town. The truckers bring all the express traffic in for 50 cents a hundred pounds. The merchants tell me that if you became competitive, you would get all the business. You absolutely refuse to consider it.

I was coming down on this train a little while ago, and there were two men sitting on one egg crate. If you became competitive, you would get hundreds of dollars of business in one town.

Mr. GORDON: But becoming competitive does not mean we will slash rates to any point in order to get the business. We deal with it in terms of classifications. We have a long list of incentive rates. These incentive rates are based on trucking costs; but we could never allow an agent to start in and compete with an individual trucker for the purpose of putting that trucker out of business, regardless. We could do that, but it would be an unfair use of our organization. Our policy is that we must be able to demonstrate, in regard to any of these competitive practices, that we are quoting a compensatory rate. We know we are subject to challenge at any time if we do not.

Therefore, as a matter of policy, we always insist on analysing the traffic in order to assure ourselves that it is compensatory. There is a great deal of business where we are not competitive with the trucks. Trucks have a special advantage that makes them more competitive in regard to certain types of traffic.

It may well be that in the traffic you are mentioning, they can do a better job than we can. I am not asserting for one moment, and never have, that the railway is a transportation "tool" that is better than any other type: that is not so. There are certain areas however in which I believe the railway is the best transportation tool. What we in this country should be looking for all the time is freedom for each transportation agency to quote and operate on the basis of giving the shipper the best service at the lowest cost. But certainly I would not go along—and I would be just as fearful as Mr. Drysdale—if we were in a position where we just quoted very low rates to put the trucks out of business.

Mr. SMALLWOOD: I did not suggest that you should quote to put the trucks out of business. Every big business today is worked on volume of turnover and less profit; but you want the big profit and no turnover.

Mr. HORNER (*Jasper-Edson*): Mr. Chairman, I just wondered if Mr. Gordon had a figure of his agreed charges on a ton miles basis. I would like to get one in a comparative region where the Crowsnest pass rates apply, if he has one.

Mr. GORDON: I do not think I should be asked to reveal that figures, Mr. Chairman. That plays right into the hands of our trucking competition.

Mr. MCPHILLIPS: Mr. Chairman, perhaps I did not make myself clear when I asked the previous question about branch lines and revenue. Are the revenues and operating costs of branch lines so fused with the over-all operation that you cannot determine whether the branch line made a profit or not in any given year?

Mr. GORDON: We have to take each branch line separately, and we do. We keep them under review at all times to see how the traffic is going to particular branch lines, in order to determine whether or not any particular one should be continued or should become a candidate for abandonment or amendment of service.

Very often we will change the type of service and put in a mixed class, and so on. But our officials see to it that the individual branches under their jurisdiction are, as far as possible, on a profitable basis.

Mr. FISHER: I would like to come back to what seems to me is involved in Mr. Smallwood's question. When trucking lines become a part of railway operations, do those trucking aspects come under the Board of Transport Commissioners in so far as rates are concerned?

Mr. GORDON: No.

Mr. FISHER: You say that there are certain areas where the railways cannot compete. We must take the view, from the way the C.P.R. has moved, that they feel some kind of integrated service is one means of protection for itself.

Mr. GORDON: Yes.

Mr. FISHER: Why has not the C.N.R. felt it can move in this particular regard?

Mr. GORDON: You will find in our budget, when you come to it in due course, that we have a substantial item in capital to enable us to proceed in the trucking area.

But the question at issue here is that the C.P.R. were able to work out a deal whereby they bought an interest in a large trucking organization. Our efforts along the same line have so far not been fruitful. We have had it under discussion, but the prices that have been discussed have been much higher than we think is the value of the enterprises.

Therefore, we are proceeding along two lines. We are gradually enlarging our own organization, through the Canadian National Transportation Limited—and, incidentally, that company has been in existence for the last 30 years—and already we operate various services in that company. We are proposing

to enlarge our own organization and, at the same time, keep a sharp look out for any trucking organization that is prepared to talk to us in terms of a reasonable price. If you know of any of that type, just send them along to my office.

Mr. FISHER: What is going to be the consequence for the trucking industry as a whole when we get in the trucking industry this rationalization of transport operations that the railways have?

Mr. GORDON: Remember, the trucking industry and the railway industry have become more and more sort of partners in the transportation game. The "piggy-back" service that we have set up is really a partnership operation. I would predict that in due course the railway transportation industry's rail job and its highway traffic job will shake down into what I may call the wholesaling of transportation, and the retailing of transportation will more and more fall into the hands of the trucking industry. That is a "stab in the dark"; it is difficult to say how these things will work out.

Mr. FISHER: Have you been following the New York Central experiments in their extension service with the flexi-van type of thing?

Mr. GORDON: Yes, I have been following this with great interest.

Mr. FISHER: It is hard for an amateur to judge; but it would seem to me that that would be the type of service on which the C.N.R. might "gain a jump".

Mr. GORDON: It looks attractive. There are various things about it, however, that do not fit from the standpoint of Canada. You have to remember that the New York Central is operating in a very heavily congested area, where its traffic is operated in a relatively small geographic area. It does not begin to compare with the long hauls we have in Canada. In Canada we have, in fact, only one area that would be comparable; that is between Montreal and Toronto. But on the long-haul business there is a question mark as to whether that system would work out.

These are all questions that are under the most careful analysis now. We are making progress, but we are doing it cautiously and investigating what the actual results will be from the standpoint of our net position; not just for volume.

Mr. CHEVRIER: In the two or three pages you have put in the record concerning trucking activities, what relationship was there in those purchases or establishments of trucking facilities with reference to integration of railway and highway services? Did you have that in mind when you made those purchases?

Mr. GORDON: Yes. This, at the moment, is a very preliminary approach. We think that there is very definitely an integration to be accomplished between the railway operations and the trucking operations that will help considerably in the matter of our net results. There are types of traffic being handled on the railways right now that would be better handled by trucks. I have in mind particularly l.c.l. The big problem we have in the railway is terminal costs. That is where the trucks beat us every time. Our delays at terminal points and the cost of terminal facilities make our costs—particularly on the short haul—out of line compared with trucks. There is the double-handling, and so on and so forth.

We are examining this from the standpoint of getting the benefit to the railway coordinating it and integrating it with trucking operations, with specific reference to what we are calling the merchandise type of traffic, namely l.c.l.

That is the high value traffic, as you know, and that is where we are making our fight, to see what we can retain for the railway industry.

Mr. HORNER (*Jasper-Edson*): Has Mr. Gordon given any consideration to the integration of highway trucking with the railway, and to bring into play the silent owner of trucks contracting for transportation on the railway?

Mr. GORDON: You mean a private trucker?

Mr. HORNER (*Jasper-Edson*): Yes; in other words a trucker contracting as a private contractor on bids?

Mr. GORDON: No, we have not adopted that.

The CHAIRMAN: Is it the desire of the committee that these three pages be printed into today's evidence?

Agreed.

(See appendix I)

Is there any further reference to that paragraph, or shall we go on to paragraph nine, passenger?

Mr. FISHER: Can Mr. Gordon give us a review of the events which led to the cancellation, and then the cancellation of the cancellation in regard to the Super-Continental passenger service last fall?

Mr. GORDON: Yes, I think I can do that very simply. Last fall we were very much concerned about our deficit position. We made a very close analysis and came to the conclusion that we might experiment with discontinuing, during the winter months one trans-continental train service on an experimental basis, so that we would have one trans-continental train service daily instead of two during the period when traffic normally falls off.

We found that the word got around that we did not have a "super-duper" service any longer through western Canada. We found that cancellation of reservations made in advance had begun to appear. That was one of the first things which disturbed us.

We also found a general reaction in respect to the prestige of the railway, if I may use that word, and its impact on the competitive position was affecting our freight traffic to an extent much greater than we had anticipated. In other words, after we had seen the reaction and had an opportunity to study it we saw that our analysis of what might be called the psychological effects of the cancellation had not been good. I happened to be in Western Canada at the time and I learned first hand what impact it had made. So when I got back to Eastern Canada I called together the board of directors and we decided that we should not hesitate to admit an error in judgment. We felt it was in the best interests of the Canadian National Railways in its general business position that our decision should be reversed.

Mr. FISHER: Before you made the official cancellation you must have analyzed the cost figures and what would ensue. Are you suggesting that the impact was so great, or was so much greater, shall we say, in revenue terms, that you felt you had to throw the first analysis overboard?

Mr. GORDON: That is right. We felt after weighing the imponderables that we should come to the conclusion that we reached. When we did continue the service we found quite a satisfactory result. The loss was not as great as we thought it would be. We had other business, particularly mail and express business which we have been able to retain and to build up. Might I add that because we considered this action the shock generally was good for morale on the whole railway. We sat down and talked with our labour leaders and we said to them: if we are going to stay in this business, we have to get everybody on his toes and looking for business. There was too much looseness in the attitude of train crews towards the general public, and there were too many complaints about the state of our equipment.

We were of the opinion that a general toning up was necessary. Therefore Mr. Dingle was detailed to carry on discussions with the various unions affecting our train crews and we had a most satisfactory response. I think that the response has put a much better tone in our service. That was a collateral value we got out of the process we went through.

Mr. FISHER: I agree.

Mr. KENNEDY: I have been looking at paragraphs nine and fourteen and I want to make some observations. In paragraph nine I noticed that passenger revenues declined to \$41.5 million, which represented a drop of 11.4 per cent or \$5.3 million from the 1957 level. I notice also that in paragraph fourteen under the heading of sleeping, dining and parlour car service, there was a decrease to \$9.0 million in 1958, which meant a drop of \$2.2 million. We can readily see that the percentage is much greater. I would like to ask Mr. Gordon if he considers what effect or influence the curbing of passes on the railway on long distance travel—has had on those figures?

Mr. GORDON: When you speak of the curbing of passes; which ones do you want me to start with first; those for members of parliament?

Mr. KENNEDY: I mean the ones that were curbed?

Mr. GORDON: It is very difficult to put a figure on it, because there are a great number of people who travel on passes who otherwise would not travel. We have never really thought about an analysis of that type, or produced any figure which would be worth the trouble. I can, however, give you the figures of the number of passes issued. We do not bother having our conductors in every case report the actual number of passes travelling, because it would not lead us anywhere. We cannot establish anything from it. But it would add to our revenue if we cut out all passes.

Mr. KENNEDY: The reason for my question is that we hear quite often among railway fraternities that the curtailing of these passes has hurt the railways in that it has reduced the revenue which those people travelling on passes normally spend in the dining cars and sleeping car services.

Mr. GORDON: What curbing of passes are you talking about?

Mr. KENNEDY: I mean railway employees.

Mr. GORDON: You are thinking of the restriction on the special trains?

Mr. KENNEDY: Yes.

Mr. GORDON: We have pass restrictions on those trains where our capacity is such that we feel that the revenue passenger ought to have the first crack at the available space. We curbed pass privileges on the commuters. We charge C.N. employees half fare on the commuter trains.

Mr. FRASER: Could the president give us this afternoon the number of passes issued.

Mr. GORDON: I think I have it here, or I should have. Yes, I have a statement here. Is there anything here which would get me in trouble if I released it?

Mr. FRASER: I just wish to have the total.

Mr. GORDON: Let me put it this way: there are outstanding as at December 31, 1958, 138,311 passes of which 44,225 were annual passes, and 91,500 were what is known as long service passes. In addition to that, there were trip passes issued to a total of 241,706. These are passes given for one particular trip depending on the service qualifications and so on. I think that covers it pretty well.

The CHAIRMAN: Are there any further questions on passengers?

Mr. SMALLWOOD: You will admit that this cancellation of the Super-Continental was really a "boob", and that it cost the company thousands of dollars?

Mr. GORDON: I do not know that I would admit that. But let me say first of all that the service never was cancelled. It was only announced that we would cancel the service. I believe that the announcement had to be made before we could have analyzed the reaction to such a move. We would never have known what was involved in that service if we had not had the degree of reaction to which I referred.

If you think it was an error in judgment, the answer is yes. I do not know if I would call it a "boob". I do not know what that is; but it was a judgment taken on the basis of the information which we had. We decided to take it off for that reason. Does that cover the question fully?

Mr. SMALLWOOD: Would you not lose a great deal of reservations to the Canadian Pacific because of the cancellation?

Mr. GORDON: No, no. I said that we were influenced by the reaction from the public that in respect to the long-term reservation period there might be cancellations based on this fact.

Mr. SMALLWOOD: Did you not have to pay?

Mr. GORDON: Please let me finish.

We did not realize that statements would be made along the line—do not ask me by whom—that the Canadian National Railways no longer had a first class service in western Canada. That was never true. It was never true. I saw some of the things referred to, but I cannot pinpoint them. I would say it was a matter of judgment.

Mr. SMALLWOOD: Did you not have to pay for a new schedule?

Mr. GORDON: It was revised before it went into effect.

Mr. SMALLWOOD: It cost you money to do it.

Mr. GORDON: Yes, it cost us something.

Mr. SMALLWOOD: I suggest that it cost you some \$12,000.

Mr. GORDON: If it did, you know more about it than I do, but I will be glad to check up on it.

Mr. SMITH (*Simcoe North*): I would like to say that the people in Barrie and Orillia were very grateful to your continuing the Super-Continental last fall, and I am sure they responded accordingly in the way of providing you with traffic on that train.

Mr. FISHER: I agree very definitely that the effect of this particular error has been to tone up the service and certainly to smarten up the railroaders. But the fear which I hear expressed now is that the next time it occurs, the two railroads will be acting together, in which event they will announce jointly the change in time, and that each of them is taking off one of those services, so they will definitely be put into effect. May I ask Mr. Gordon for his assurance that he is not considering it at this time?

Mr. GORDON: I would say that our policy in respect of passenger service generally is that we will continue trains as long as we see that they are patronized. We certainly will not give a guarantee for all time that passenger trains will be continued. It would depend on the circumstances. If the public support them, we would be glad to keep them on.

Mr. HORNER (*Jasper-Edson*): I would like to ask Mr. Gordon a couple of questions in regard to passenger service. I would like to know what his attitude is now towards dome cars and whether he agrees with one of his vice presidents that the scenery along the Canadian National Railways is not competitive with that of the Canadian Pacific?

Mr. GORDON: I do not know to which statement you are referring.

Mr. HORNER (*Jasper-Edson*): It was made to me personally.

Mr. GORDON: I think this would be the proper time for me to say, Mr. Chairman, that perhaps as a result of the intensification of interest that we took in the passenger service generally, over the last two years we have put in a great number of innovations in an effort to pep up our passenger service. Those of you who have not got any money—and fortunately that does not apply to this group—if you have to borrow money to go by rail we now have a “go now and pay later” plan. People can borrow from two banks and pay for their passage at a later time. That shocks my earlier training, but nevertheless it seems to be a way of life nowadays and we are getting quite a response to it.

We have also introduced extended credit card arrangements, family plans, package tours, various forms of reserved coach excursions; we introduced the sale of reserved seats on coaches, and incentive fares of a one-day limit. Recently we have introduced tourist fares on various types of equipment. We also were the originators of permitting the conductor, after the train has left the station, to sell the empty sleeping accommodation on trains, based on the fact that it is distress merchandise.

We have done a number of things for the purpose of enhancing the interest of people to travel on our passenger trains and I think we are getting some results.

The CHAIRMAN: I do not know whether you should mention that to this group because you will have people getting on the train expecting to get accommodation.

Mr. GORDON: I am talking about upper berths, of course. We will be glad to welcome them in our upper berths on any of these trains.

Mr. FISHER: I do not feel I can leave this passenger situation without some statement on how the railway is going to tackle this commuter problem.

Mr. GORDON: Along what line? We have been tackling it in every way we can.

Mr. FISHER: I imagine you must be looking to one thing, and that is cutting down on the number of people with passes.

Mr. GORDON: We have recently introduced in the commutation areas the discontinuation of all free passes for our own employees. It is now half fare; and for everybody else including the employees of other railways, it is full fare.

Mr. FISHER: You have not done this yet in the Toronto area?

Mr. GORDON: I do not recall that we have. Yes, I am reminded now, I had forgotten. In all the commuter zones we have our employees on a half fare basis.

Mr. CATHERS: But you have not any commuter trains in Toronto?

Mr. GORDON: I beg your pardon?

Mr. CATHERS: Is that correct?

Mr. GORDON: It is certainly incorrect. We have very heavy commuter service along the Toronto-Hamilton line. Have you not heard of the Oakville delegation who had some comments on the conditions of our coaches? I stepped in and got it fixed up and received two congratulatory letters out of 500 complaints.

Mr. FISHER: On this compensatory or non-compensatory basis question, commuter trains are even less compensatory than ordinary passenger services?

Mr. GORDON: That is correct, yes sir.

Mr. FISHER: We have a form of subsidization here of workers in the metropolitan area. How can we break through all the barriers here and get the damned thing straightened out?

Mr. GORDON: If the Board of Transport Commissioners would release us from the obligation of running some of these services, that is one way. However, I do not think it is as simple as that. The problem of the commuter service, as I have said on many occasions, is the problem of the peak load. It is the fact that we have all our traffic in a period of time of one or two hours in the morning and one or two hours in the evening. Part of our trouble there is with our labour agreements. We have not been able to have a specialized approach to the operation of that kind of service.

I am not speaking critically, but that is one of the difficulties, to get them adjusted to the problem of peak loads. I agree it would be unfair to expect them to take it out on the labour force. The fact is however, that the labour force on these trains is there for long periods of time. We cannot use them all. The time they just have to be there. If we could solve the problem of the peak load, we could solve the problem of commuter service.

Mr. CHEVRIER: What is the purpose of the application of the commuter application before the Board of Transport Commissioners?

Mr. GORDON: We have no application before them now.

Mr. CHEVRIER: Yes, there is an application to examine the commuter rates in the Montreal area.

Mr. GORDON: Oh yes, I am sorry, my timing is wrong. I thought it had been dealt with. It is still before the board. I will tell you what I am confusing that with. That application was made at the same time as we put the employees on half fare and the fact that we had dealt with that part of it confused me for a moment. The application is before the board and is due to be heard at their discretion.

Mr. CHEVRIER: And what are you seeking in the application by way of an increase?

Mr. GORDON: The new tariffs were filed on February 19 to raise the commuter fares. The increase will range between 17 and 37 per cent, effective March 15. At the present time there is no indication whether or not this increase will be granted or whether the board will allow some smaller increase. We put in of our own motion the increase for employees.

Mr. CHEVRIER: What services does that include?

Mr. GORDON: Mainly in Montreal and Toronto.

Mr. CREAGHAN: What revenue do you anticipate by charging your employees half fare on the commuter services?

Mr. GORDON: I do not know that we have a fixed figure to it. We will have to get it from experience.

Mr. CREAGHAN: In the millions?

Mr. GORDON: Oh, no.

Mr. CREAGHAN: Does it apply to all Canadian National employees across the country now?

Mr. GORDON: Yes, and on the Canadian Pacific Railway, they charge their employees half fare.

Mr. CREAGHAN: I have a couple more questions.

Mr. SMITH (*Simcoe North*): Only on commuter trains?

Mr. GORDON: Yes sir. This is on the theory that a commuter train is not really a regular passenger service; it is really a streetcar service.

Mr. CREAGHAN: You have several applications pending before the board. I notice one in my riding; the service between Point du Chene and Moncton. It is patronized by Canadian National Railways' commuters. There has been no judgment yet but have you put them on half fare because for many years—

Mr. GORDON: That is a work train.

Mr. CREAGHAN: Yes, what you call a shop train.

Mr. GORDON: This one you have referred to was made before the board in June of 1958. It was an abandonment of the service in that case, not a matter of increasing or curtailing the service between Moncton and Point du Chene. The hearing was held on March 13, 1959 and we are now waiting for the judgment.

Mr. CREAGHAN: What is the date of the half fare?

Mr. GORDON: It went into effect on March 1, 1959.

Mr. CREAGHAN: Perhaps Mr. Dingle should answer this. Would you refer to that shop train as a commuter train?

Mr. GORDON: No. It would be a work train.

Mr. CREAGHAN: Nothing applies there to anybody on that train?

Mr. GORDON: If we were to continue it, that would not be regarded as a commuter train. All the people who travel on it have passes, but we have alleged before the board that the patronage of the one passenger train in comparison with other transportation media has been practically negligible and that the train is not necessary for the service of the community generally.

Mr. CREAGHAN: There is another question that has bothered me a little and that is when union officials are going to conferences they can get a special pass to travel on a restricted train, by making application at a divisional office. I question whether or not you extend that same privilege to the officials of retired railway associations. I think it was brought to my attention at a convention in Newfoundland last year that they could not get on a restricted train although they were retired officials, rather than active officials in the association.

Mr. GORDON: I do not know the particular item to which you refer. Of course if they were long service employees they would have a pass in their own right.

Mr. CREAGHAN: Not on restricted trains.

Mr. GORDON: No, not on the restricted trains.

Mr. CREAGHAN: These were elderly citizens who had long service passes; but they could not go, for example, on the train between Truro and Sydney.

Mr. GORDON: I think they could if the space was available. The point, of course, is that under our pass conditions generally the pass-holder has to take second place in respect of the availability of equipment. If the revenue passengers have exhausted all the sleeping space available then the pass-holder cannot get space.

Mr. CREAGHAN: My point, Mr. Gordon, is this. That really does not apply in the case of a railway union going to a convention in Montreal. He is allowed to get a special pass that permits him to pay for his ticket, the same as an ordinary person. You do not give that same privilege to a retired person, somebody belonging to the Canadian National Railways' retirement association to go to an official and say, "I am going to a convention, may I get on a restricted train like an official labour man?" and I am suggesting—

Mr. GORDON: These restricted trains in your territory, I am not aware of what you are talking about.

Mr. CREAGHAN: The restricted train in my territory is simply the Ocean Limited, primarily.

Mr. GORDON: Yes, but there are other trains on which I think this man to which you refer can travel.

Mr. CREAGHAN: Yes, but if there is a convention of the labour union and the railway union in Montreal, the elected officials from the trade union, for example—

Mr. GORDON: The active officials.

Mr. CREAGHAN: Yes, —can go on the restricted train; and yet if there is a convention of the retired railway employees association the elected officers cannot go on the restricted train. In other words, you make a distinction between a working man and a retired official?

Mr. GORDON: Oh, yes, I think that is fair enough. He cannot take the restricted train because our accommodation is limited. I think we have gone far enough when we say to the labour representative actively on duty, "We will give you preference," but there are other trains on which these men, you refer to, could travel perfectly adequately.

Mr. CREAGHAN: It does not seem fair to me that you give this preference to younger employees and yet your lifetime officers, who are the elected officers going to a convention, cannot get as much as a younger man.

The CHAIRMAN: The younger man pays, though.

Mr. CREAGHAN: No, both are free.

Mr. GORDON: What you are referring to here, is a situation where we have given a preference in favour of the person who is working. That is what we are up against every time. When we give some concession to recognize the fact that the labour representative is a man who is actively on duty, then everybody wants the same thing. We cannot do it; we do not have the accommodation. I am saying now that it is not much of a hardship; there are other trains, the Scotian and others that are just as comfortable, and the retired man has more time than the active fellow.

Mr. CREAGHAN: In other words, it is a question of policy?

Mr. GORDON: Yes.

Mr. ROBINSON: Mr. Chairman, under paragraph 9, passenger cost, I might say in our district there are three lines serving Palmerston. Actually one line used to go to Wiarton, one line to Southampton and one to Kincardine. Over the last number of years, owing to insufficient business, there was an application to curtail the service and recently one of our present ministers has had occasion to speak about that in the House of Commons. Along the lines of our talk, if this accommodation was improved and not left in such a lackadaisical way it would be given better use. We are glad to know the company has decided to put three railiners in that district. The announcement was made at Kincardine and Southampton that a railiner would leave there in the morning and come back at noon, another would leave from Palmerston into Owen Sound and out at noon again. We were quite happy about that, excepting we did not think that railiner should take in Owen Sound at all. We thought it should leave Wiarton.

Recently there has been another change and the railiner now is going into Southampton at noon. The point I am trying to bring out, Mr. Chairman, is this, that as far as Owen Sound is concerned it is a curtailment of service and I was under the impression that any curtailment of service had to have the permission of the Board of Transport Commissioners. I do not know whether that has been done or not.

Mr. GORDON: I might correct you on that. That is not correct. We only need the Board of Transport Commissioners' permission when it is an abandonment of service. We can curtail service on the basis of traffic.

Mr. ROBINSON: I could not understand it at all. What I am coming at is this, that if the company is interested in the passengers in the first liner, No. 9, then I can make a suggestion to them—to have one of these three

trains leave Southampton, one leave Kincardine and one leave Wiarton, and leave Owen Sound out of it, for the simple reason that Owen Sound has a day-liner running out on the Canadian Pacific. If the Board of Transport Commissioners was on the job they would not have a repetition of service in one place when another place is begging for service. Those three districts, Kincardine, Southampton and Wiarton are three summer resort districts and I am certain the business those three liners would pick up would be beneficial to the company.

Mr. CATHERS: Mr. Chairman, may I ask Mr. Gordon if they have compiled the value of those passes, in revenue?

Mr. GORDON: It is quite impossible. There is no way for us to know the extent to which they are used. We would be going to the extent of collecting useless statistics on it. The other point is, what would happen if passes were withdrawn? There are a lot of people who now travel, perhaps, because they have a pass. If we took that pass away they would not travel. That is why there are certain restrictions on using passes. Theoretically, and in some cases we enforce it, when the train is crowded the pass holder is expected to give up his seat to a revenue passenger. The revenue passenger has a priority right to occupy a seat on the train ahead of the pass holder. I do not know how often they enforce that, but there have been instances. There is no use trying to analyze the situation because you get nowhere.

The CHAIRMAN: Many passes might not be used for three years?

Mr. GORDON: That is right.

Mr. FISHER: The real significance of this indicates that the union has never tried to put a value on passes?

Mr. GORDON: No.

Mr. CATHERS: For example, on employee passes, has there been any record of the value of those passes?

Mr. GORDON: No, that is what I am saying, there is no way to evaluate them.

Mr. CATHERS: In the case of employees and their families, some of those trip passes, do you not think, for instance, that should be reported as part of their compensation or income? For example, there is a discrimination in that. I am wondering whether in the experience of pass holders that is shown in their income.

Mr. GORDON: I do not know.

Mr. CATHERS: A farmer in his income has to report produce used in the home as part of his income, or a grocer has to report the amount that is used off his shelves. Is it not the same thing?

Mr. GORDON: No, I do not think so. I do not think the analogy is the same.

Mr. SMITH (*Simcoe North*): You have to eat, but you do not have to use your railway pass?

Mr. GORDON: Yes. The fact is that a railway pass holder will travel a lot less if he does not have a pass.

Mr. HORNER (*Jasper-Edson*): I would like to get back to the Super-Continental again. This is the major train in northern Alberta and we are quite concerned that it should be a first-class train. That was one of the reasons I asked about the dome car, and I still have not an answer to that one, because there are a number of people from northern Alberta going down to Calgary to get the Canadian both west and east, which is a fantastic situation as far as I am concerned, particularly when everybody knows that the scenery through Jasper is much better than it is down south. There have been certain suggestions made to me by railway employees with regard to

this thing. I have travelled both by Canadian National and Canadian Pacific from here to Edmonton on several occasions and personally I think they are quite an asset to a passenger train.

The other thing I think is an asset is to change the colour of the Super-Continental. Just as a mere suggestion I would suggest that you paint it gold.

Mr. GORDON: I have been reproached for not answering that question on the dome car. I would be glad to answer it. I have explained this before.

Mr. HORNER (*Jasper-Edson*): I was wondering whether you had changed your mind.

Mr. GORDON: I certainly would not change my mind now. But if I had to do this all over again, I do not know. The point is that on advice of our traffic officers at the time, we embarked on the purchase of our equipment back in 1954. We came to the conclusion that there had to be a substantial expenditure in the rehabilitation of passenger equipment. There has been no substantial amount of passenger equipment purchased for something like twenty years, and we had to come forward with a budget item of some \$50 million to bolster up our passenger service. We came to the conclusion we would be better off to spread that \$50 million as widely as possible, and we did not feel that the dome car had enough traffic potential to justify the expenditure. Remember, the dome car is not an earning car, it is a super-numerary car on the train. You will never determine whether the Canadian Pacific Railways gets more passengers on the train, by reason of the dome, than we do. I do not know. It is one more item they have for sale. We have different items in our price, and so on, but they are not necessarily the same.

Your point about passengers travelling between Calgary and Edmonton; I was interested in that point and looked into it when I was out west. There are passengers travelling both ways. There are passengers who like to go out one way on the Canadian Pacific and back the other way on the Canadian National. They have a chance to see both the attractive scenery of Jasper and anything else that may be left.

Mr. KENNEDY: I was wondering if Mr. Gordon could advise us if he has business or V.I.P. cars?

Mr. GORDON: Yes, we have. We have directors' specials which we will make available to groups of people who may be travelling to directors' meetings or annual meetings of shareholders; and they are available to any group at standard tariff rates for the purpose. We have six or eight. They are all named. I can give you the names of them.

Mr. KENNEDY: I do not want the names. I was just wondering what they cost on the average.

Mr. GORDON: Oh, they would run about \$235,000.

Mr. KENNEDY: Are they capable of retiring the costs in terms of the support they are given?

Mr. GORDON: They are proving reasonably profitable. We feel they are a good investment, yes.

Mr. KENNEDY: How many of those six have been built in the last few years, say, five years?

Mr. GORDON: I do not think we have had any built in the last five years. There were two added in the 1954 expansion.

Mr. DRYSDALE: Mr. Gordon, on the question of passenger revenue, I noticed you do not have a figure account-wise, but have you any idea as to what losses, if any, the passenger service is making?

Mr. GORDON: That is the \$64 question I was hoping would not be asked.

Mr. DRYSDALE: Sorry.

Mr. GORDON: Because there are again all sorts of different approaches to this question. What is often used is what is called the I.C.C. formula, which is the formula adopted by the Interstate Commerce Commission of the United States and is often applied to the passenger business. On that basis our passenger deficit would run about \$89 million last year.

I do not agree with the formula. I think it is too bare a formula and does not take into account related considerations. On our own analysis—we have been trying to determine this question ourselves by a much different analysis of everything that goes into our passenger business—and after getting it down to what might be termed a bare out-of-pocket expense, we figured our passenger deficit last year ran about \$38 million.

Somewhere around that level lies the truth, but we now have commenced to overcome the great dearth of statistics in regard to the actual results of our passenger business. We have this year and last year, by reason of improved data processing devices, had better statistics than we ever had.

Mr. DRYSDALE: From the revenue viewpoint, then, would you say the trend is eventually for all freight as far as the railway is concerned, with gradually getting rid of the passenger service; in other words, taken on the present service, if you deducted the passenger service you would have a profit?

Mr. GORDON: I do not want to get into predictions on the passenger operation. I did last year and got into trouble. Forecasting always gets me in trouble. I am not a very good prophet! The fact is, we are quite prepared to continue the passenger business as long as there is economic justification for us so to do. We are intensifying our efforts in an attempt to keep passenger business, sprucing it up and seeing to what extent the public will support and help the effort. If the public responds to that effort we will stay in the passenger business; but obviously if the public does not want it then there is no satisfaction in keeping the trains.

Mr. DRYSDALE: In reality, then, this is rendered as a public service, to promote good public relations?

Mr. GORDON: Some of our passenger business is profitable business. Our main lines generally, I would say, would pay the costs. There are a number of trains in various areas which provide a mixed service. Those are runs that are often candidates for abandonment and we have every one under investigation. We intend to make applications for abandonment wherever we can make the situation stand up under that kind of analysis.

Mr. ROBINSON: This is along that line. When that happens will you remove from your signs, "The Canadian National Railways serves all Canada"?

Mr. SMALLWOOD: Would you say the service provided at present by your passenger service personnel was as good as it might be?

Mr. GORDON: You are working with human beings. We have given our reservation personnel—

Mr. SMALLWOOD: I say you are not in very close contact with it. We say you should investigate it. It is very inefficient and driving business off our main lines.

Mr. GORDON: This is the sort of statement, Mr. Chairman—It is not a question, but a statement—made quite frequently to us of the Canadian National, and it is a statement made without support, and which has a detrimental effect on the interests of the Canadian National Railways.

The CHAIRMAN: I was going to mention before that I think this is an examining committee and I think we should continue as far as possible our procedure of questioning, because it is not a committee to tell the president or the Canadian National Railways management how to run a railroad; it is a committee to find out how they are running the railroad.

Mr. SMALLWOOD: Well, I think the Canadian National management are broad-minded enough to take suggestions.

The CHAIRMAN: I think they are. I think as a committee we should be broad-minded enough to keep it on the rails. We should ask questions rather than make statements, except within a reasonable latitude, and I think we have had wide latitude in that regard.

Mr. FISHER: I want Mr. Smallwood to have his point here, because my experience has been very much as his was, and I want to see him take it up.

Mr. SMALLWOOD: I travel these trains and I would like to give a couple of examples and ask that he would investigate the situation. Last summer a couple of members of parliament tried to get reservations from Ottawa on the Super-Continental and could not get them. We investigated and found there were empty compartments out of Ottawa. We had to take the Canadian Pacific to get in.

On another occasion a family purchased a compartment and when they arrived at Winnipeg they were put out of it. It had already been sold in Winnipeg. I have heard that family say, "This is the last time I will ever ride Canadian National." These are just instances.

Mr. GORDON: I certainly regret if you found that case on the Canadian National; but you will have the same experience in any transport business—no matter whether bus, air lines or train. You will have, for example, the "Tom foolishness" on the part of human beings.

Item No. 2—it is also the case that this business of reservations is one of the headaches of transportation. People will ask for reservations on the telephone, and then do not show up; and nine times out of ten when we cancel reservations and sell them to somebody else the fellow turns up two minutes before train time and raises merry hell because he has not got any transportation.

All I am suggesting to you is, in the first place is that, we are no worse than anybody else. Secondly, when you say I do not know what is going on, I deny it. There have been intensive examinations of our whole reservation procedure, with the result that over the last twelve months we have done considerably, better than we did before, on these things we are talking about. I will say this in regard to the passenger business, I think there has been a definite improvement in that respect. We have embarked on training programs with individual ticket clerks, and, put them through courses on how to handle the public. We have had the Bell Telephone personnel in to examine our telephone answering techniques. We have had training schools to instruct our people, and we have instituted a number of new procedures. On the second point I would like to remove that blot from my escutcheon, because I know what is going on.

Mr. BRASSARD (*Lapointe*): Mr. Chairman, I realize that my question has reference to a particular area, but I wonder if Mr. Gordon would be so kind as to give us the operation of the Montreal-Chicoutimi run revenue-wise?

Mr. GORDON: I do not have the figure, but I would say offhand it is not good.

Mr. CREAGHAN: I have a couple of questions on the same subject.

The CHAIRMAN: Would you make them short? I was figuring we might rise at 12.30.

Mr. FISHER: Well, it is 12.30 now, let us rise.

The CHAIRMAN: Just before we rise, I think notices went out for 3.30. Would it be satisfactory to meet at 3.00 o'clock?

Mr. CREAGHAN: After the orders of the day or 3.30, whichever shall first occur.

The CHAIRMAN: Very well. Mr. Gordon says he will be here at 3.00.

Mr. FISHER: If I am going to stay until the orders of the day are in and come back here and find you have gone past "passenger," I have some more questions.

Mr. CATHERS: Mr. Chairman, I am not a member and I asked some questions. Have I permission to ask questions?

Mr. FISHER: He certainly has not. He got in here and expressed an anti-labour sentiment. He is not on the committee.

The CHAIRMAN: We need somebody like that to make up for you, Mr. Fisher. We meet this afternoon.

AFTERNOON MEETING

TUESDAY, May 5, 1959

The CHAIRMAN: Will you please come to order, gentlemen. Before we proceed, in order that notices may go out for the meeting tomorrow, and since there is a great shortage of rooms in which to meet, evidently. Mr. Plouffe, the clerk of the committee is trying to arrange for us to have this room in the morning. Is it your desire that we meet in the morning, and if so, at what time? Would nine o'clock be too early?

Mr. BROOME: If we meet at nine o'clock we could get all through before 10.45.

Mr. FISHER: Is there any chance of adjourning to 11 o'clock? There is another special committee sitting at 9.30, in which a number of us are greatly interested.

The CHAIRMAN: What about our caucus at 11 o'clock.

Mr. BROOME: We will have to sit tonight.

The CHAIRMAN: What is your pleasure gentlemen? Would you rather sit tonight than after 11 o'clock tomorrow morning?

Mr. CREAGHAN: Let us sit tonight and tomorrow morning between nine and eleven.

The CHAIRMAN: Is that satisfactory? Contrary, if any? Agreed.

Then we shall sit tonight and again tomorrow morning from nine to eleven, and tomorrow afternoon, following the orders of the day until evening, I presume. You do not want to sit on Wednesday night?

Mr. FISHER: No, leave us a few privileges.

Mr. BROOME: We may have to, in order to clear up.

The CHAIRMAN: I do not know. Very well, we will sit then, and send notices out for eight o'clock to 9.45 tonight, and for nine to eleven tomorrow morning, and after the orders of the day until six o'clock tomorrow afternoon, but not tomorrow at night.

Mr. BROOME: Unless it is necessary.

The CHAIRMAN: We can always change it. Now, if you are prepared to proceed, we were on the passenger heading when we adjourned for lunch.

May I suggest again that we take as little time of the committee as possible in making speeches which would indicate our desire to tell Mr. Gordon how to run the railroad. We are here to inquire from him how he is running it. I think our duty is to ask questions to find out, under our orders of reference, and to investigate the present situation rather than to go into fixed policy, or to tell the management how to run the railroad.

There is a certain amount of leeway, and I know that Mr. Gordon is very anxious to get a lot of advice; but I suggest for the purpose of making progress we try to confine it as much as possible to inquiries, rather than to giving them a lot of advice free gratis.

Mr. FISHER: May I ask a straight factual question to start with. I hope all my questions are of that kind. Did the railway make any progress last year in keeping passenger schedules on time? Last year you made the point that with the shortening of the time, it became more and more difficult to keep them up. Have you any indication which would point to your record of accomplishment in that particular regard?

Mr. GORDON: Yes, I have some information on that. The March to November season 1958, which is the summer season, showed that on time performance—was 84.1 per cent as against 77.8 per cent for the year before. For December to February, the winter season, 1956-57, the figures showed 43.3 per cent, and in the 1957-58 season the figures showed 78.2 per cent, which was a very substantial improvement in that season.

Of course I would point out that our winter performance is dependent very much on the weather. It is hard to make comparisons as to relative performance without qualifying it with the conditions of the weather during the winter season.

Mr. FISHER: This past winter was a very bad one.

Mr. GORDON: Nevertheless our overall picture shows a substantial improvement.

The CHAIRMAN: Are there any other questions?

Mr. FISHER: Yes; I want to ask a question with regard to wrecks, derailments and things like that. I am not asking for specific examples or figures, but I have encountered concern along the railway that because of changes in the maintenance of way activities, and that sort of thing, there has been a substantial increase in this sort of accident. I wondered if you had any figures which would lay that ghost.

Mr. GORDON: Would you like to comment on the general question of the safety record, Mr. Dingle.

Mr. S. F. DINGLE (*Vice president of operations, Canadian National Railways*): I take it you are referring more or less to the broken rail situation?

Mr. FISHER: Yes.

Mr. DINGLE: Well, in a normal year— you may see this chart some time—we have something in the neighbourhood of 30,000 broken rails. But in 1958 we had 17 derailments because of broken rails, and that is all.

As to failures, they were detected either by visual means or by the Sperry car, or by audio. There has been no deterioration in that respect. Each year we have our share of difficulties, of course, with that type of accident. However, I think our record is very good when you consider that we have had only 17 broken rails which caused derailments out of over 30,000 broken rails in the year.

Mr. FISHER: There is no pattern of deterioration?

Mr. DINGLE: None whatsoever.

Mr. GORDON: I might add that I have before me a sheet showing our collision record. In the 1957 year our collisions of all classes were 171. In 1958 however they were reduced to 125. These collisions generally arose from breaking the rules, such as improper flagging, the violation of orders for meets and are the sort of hazards we find in the railroad business. But there has been year by year an improvement in that respect and I think the figures show that 1958 was substantially better than 1957.

Mr. FISHER: Are there indications that where you have central traffic control that type of accident disappears?

Mr. GORDON: I will not say that they disappear, but nevertheless there is a very substantial improvement. The kind of accidents we have on central traffic control territory has always been a great puzzle to us. They usually are bad accidents when they do happen. We have not been able absolutely to determine the sort of human failure that causes them. It means this: in an accident which happens on central traffic control territory, the engineer has gone against a red light.

Mr. FISHER: You do not have any failure on the part of the actual dispatcher?

Mr. GORDON: No sir.

Mr. FISHER: It is not possible at all?

Mr. GORDON: You have to keep in mind that under central traffic control the dispatcher cannot make a mistake. He cannot set up two trains against each other. It is impossible. So the only kind of accident that can happen in that respect is when the engineman moves contrary to the signal indication. Am I correct Mr. Dingle?

Mr. DINGLE: That is right.

Mr. FISHER: Have you any indication that the safety factor is part of the psychology of people who use the passenger service on the railway?

Mr. GORDON: Well, you are talking of the psychological state of the individual?

Mr. FISHER: Yes; is the safety factor of the railway or its reputed safety factor a deterrent or a help in attracting passengers?

Mr. GORDON: You are thinking now of the passenger end?

Mr. FISHER: Yes.

Mr. GORDON: Yes, indeed. Mr. Wright was just reminding me of a survey we made through our public relations department. We made quite a number of what we call motivational surveys and they have proven conclusively that quite a number of people will record their feeling that the safety of railway transportation is what encourages them to travel by rail. We have never, as a matter of policy, featured the point. Perhaps it is superstition, I do not know, but it is a tradition in the transportation business that any one type of transportation will not point a finger at the safety record of the other. It is not considered good ethics.

Mr. FISHER: I have brought this up because I have noticed some of your advertising would seem to play it up in so far as freight traffic is concerned.

Mr. GORDON: There is a subtlety in it, I hope.

Mr. DRYSDALE: When did you introduce the centralized traffic control?

Mr. GORDON: Early in the war years. It was early in the war years between Moncton and Halifax.

Mr. DRYSDALE: What is the difference between that and the block system? I believe the block system is used by the Canadian Pacific Railway mainly?

Mr. GORDON: Well, I will let Mr. Dingle deal with that.

Mr. DINGLE: They call it a permissive block and the signals are set by the train in a block, whereas with C.T.C. the signals are controlled by the train controller. This gives us much more flexibility in our train operation and is safer, in our opinion.

Mr. DRYSDALE: The block system is automatic, whereas the C.T.C. is non-intervention, shall we say?

Mr. DINGLE: Yes; the automatic black system is activated by the train as it runs.

Mr. CATHERS: Mr. Gordon, you mentioned earlier this deferred payment plan for passengers. Have you made any estimate of what that is going to cost the Canadian National Railways?

Mr. GORDON: It is too early yet about the acceptance of the plan. We cannot really tell. We have just introduced it and it will depend on the actual operation. We have got some ideas on the mechanics of it but I think we will have to wait for some experience to obtain more figures.

Mr. CATHERS: Do you think it was a good idea to introduce that, with your Scottish background?

Mr. GORDON: If I were to run the railway and just make my business judgments on the matter of personal prejudice, there are a lot of things I would not do. This is becoming a way of life in the community and if it will bring more business I am perfectly willing to swallow any qualms I may have. There is no cost to the railway, the banks take the loan risk. The agreement we have with the banks is that an application form is made out, sent in to the bank and the bank then makes the loan to the individual. They are responsible for the collection of it.

Mr. CATHERS: I am glad to hear that.

Mr. GORDON: I have seen to that; there is no doubt about that.

Mr. FISHER: May I make a motion that Mr. Cathers be allowed to ask questions, as he is not a member?

Mr. DRYSDALE: I will second that motion, in spite of my better judgment.

The CHAIRMAN: Moved by Mr. Fisher, seconded by Mr. Drysdale. What is your pleasure, that we allow Mr. Cathers to ask questions although he is not a member of the committee.

Motion agreed to.

The CHAIRMAN: Mr. Fisher, you had a question then?

Mr. FISHER: I do not know whether you are aware there have been several examples following wrecks, Mr. Gordon, where information has been sent to me. I have spoken of it to Mr. Kyle, who is vice-president, central region, and he said if this information ever came into the public domain there would be openings for libel suits. On wrecks such as the Kashabowie subdivision I was flooded with all sorts of horrendous tales. On the other hand many things have been misrepresented. Is there any way that the railroad can move more quickly to get the correct explanation as to cause and the other factors involved in these wrecks or derailments, or whatever the cause may be in the area where they took place, and clamp down on them?

Mr. GORDON: I think we do the best we can. We do not always know, ourselves. We make the most meticulous examination of causes of accidents. For instance, the wreck we had between Ottawa and Montreal, we assumed to be a broken rail. The actual evidence we were able to secure was that there was a very marked change in the temperature over a period of two days. However, we could not examine that break, as we were not able to recover the pieces of the rail at that time because they were buried in deep snow. We could not tell by scientific analysis whether the rail had broken under that train or before that train had come to it. It is very hard to decide this but we make a very intensive examination of all causes of wrecks. The Board of Transport Commissioners also make a close examination. We do not like to jump to conclusions as to cause. If they are obvious,

then we will state it as quickly as we can; but this expression "broken rail" is a general expression and it is important to us what has caused the breakage. We cannot always tell that.

Mr. CHEVRIER: What is the relative number of percentage of accidents per miles travelled on the Canadian National Railways and how does that compare with American railways, for instance?

Mr. GORDON: Let me see, I should have that. The only figures I have here is in the period 1953 to 1957 per 100 million passenger miles we have statistics that show .014 passengers killed and 1.579 injured, which you see is a very, very low record indeed; and on the Canadian Pacific Railway for the same period per 100 million passenger miles their record is .03, slightly higher in the matter of killed, and 1.265 injured which compares with our figure of 1.57. So we are practically about the same.

I do not have immediately before me the record on the United States class 1 railways but speaking from memory—and I am reasonably sure I am right—our record is noticeably better.

Mr. FISHER: You have not got the figures there for air?

Mr. GORDON: No, I do not have those before me.

Mr. FRASER: Mr. Chairman, Mr. Gordon mentioned that the Board of Transport Commissioners also investigated. Have they got technicians?

Mr. GORDON: Yes, indeed, and they keep a very close record of them. All accidents that involve a cost of \$750 or more are called reportable accidents. Now, you have to watch your definitions again. Just an ordinary mishap on that basis may be an accident. It is not a violation of the rules. Many things come along, such as sideswipes, or run through switches and many of these things have to be carefully reported to the Board of Transport Commissioners, who keep a strict check on them.

Mr. CHEVRIER: And is it not a regulation of the Board of Transport Commissioners that where a fatal accident takes place, all trains have to slow down for a period?

Mr. GORDON: Yes, sir, that has been our experience wherever there is a serious accident at a crossing there is a slow order put on at the point until the Board of Transport Commissioners has completed its investigation and has satisfied itself there is not an element of undue risk at that point.

The CHAIRMAN: Any other questions on passenger?

Mr. MCPHILLIPS: It seems to be generally conceded that they will not take a fireman off the passenger diesels. What is behind that; is that the safety factor or do they have some duties to perform?

Mr. GORDON: No, if I can just deal with that; you see, the point is that on any passenger train in operation we will always have two men on the cab. Now, in the passenger train the fireman was the logical second man to have, and we left him there for that purpose so that there are two men on the cab.

In the case of the freight and yard diesel, however, the second man did not need to be a fireman; he was more properly the head end brakeman, and that is where the dispute arose in regard to the diesel issue. It should be emphasized—and I am glad of this opportunity to emphasize if because I think there is still a widespread misapprehension—I would like to make it clear that in any case of locomotive operation—and I include the locomotive in road operation—there is never any case where there are not two men in the cab. In yard service there may be one man operating the unit, but he operates with hand signals from a crew. The crew may be three or four, depending on the circumstances; but it is only in the yard where we may have the one man and he is supported by a crew on the ground. There are always two men in the cab of every engine on the road. I would like Mr. Dingle to confirm that.

Mr. DINGLE: That is it exactly.

Mr. CROUSE: May I ask a question although I am not a member of this committee?

The CHAIRMAN: Agreed.

Mr. FISHER: Is it on the same line, because I wanted to follow this particular line?

Mr. CROUSE: What line are you discussing at the moment?

Mr. FISHER: This question of firemen.

Mr. CROUSE: No, it is not.

Mr. FISHER: What about the helper who is on the diesels looking after the motive power aspect of it? That is, your diesel technician?

Mr. GORDON: I do not exactly identify what you mean. The locomotive engineer is in charge of the diesel.

Mr. FISHER: I do not know about the Canadian Pacific, but on the Canadian National there is a man in the units, when you have more than one unit. I do not know what his role is.

Mr. GORDON: That must be the head end brakeman, is that not right, Mr. Dingle?

Mr. DINGLE: It could be the fireman or engineer.

Mr. GORDON: Are you talking passenger service now?

Mr. FISHER: Yes.

Mr. GORDON: Well, the staff of a passenger train is the engineman, fireman on the cab, then we have trainmen on the passenger train, and the conductor; and that is your crew.

Mr. CREAGHAN: Sometimes you see freights with three or four diesels in front of them. I understand just the front one has a crew in it?

Mr. GORDON: That is right.

Mr. CREAGHAN: The other three are operative?

Mr. GORDON: Yes, they are all synchronized with the first one and it is a matter of increasing the amount of power, that is all.

Mr. CREAGHAN: In the case of a freight train where you say you are always going to have two if it is doing what you call road work, and if it has as many as three engines, is the fireman in that case a trained operator in any way; in other words, can he take over the engine in the case of emergency?

Mr. GORDON: As a matter of interest, in the early days of diesel operation there was probably some reason for having some technicians who could do some repair work on the road, in cases of breakdowns. With the development of the modern diesel locomotive, we do not want anybody to touch them. If it breaks down, leave it alone. We would rather send out and haul it back. It is a very, very expensive piece of machinery, and tinkering around with it on the road is liable to cost us a great deal of money. It is much cheaper to go down and get it and bring it into our shop.

Mr. CREAGHAN: I mean could he take over the operation of the train, not the maintenance of it?

Mr. DINGLE: In many cases, yes. Some of them are not engineers but firemen. In that case they are not necessarily, proficient.

Mr. CREAGHAN: Is there any trend to make them all more or less assume operation?

Mr. DINGLE: Their right of promotion is to engineer.

Mr. GORDON: Promotion under our agreement with the firemen is to an engineer. Now, if traffic declines to the point that we do not need the number of engineers who are available, then that engineer can step back into his fireman's classification so that in any given case you may very well have two qualified engineers in the cab. It depends on circumstances.

Mr. CREAGHAN: Is not that the actual goal eventually, to have a qualified assistant there in case of emergency?

Mr. GORDON: I am careful about these terms because they are jealously surveyed by our union representatives, so I do not want to be drawn into a hair-splitting definition. As a generalization and not entirely 100 per cent, the tendency would be along the lines you mention.

Mr. DRYSDALE: In that case Mr. Creaghan is thinking of, I have not been in a diesel cab so I have no knowledge of what the fireman would do. Is there not a dead-man control; supposing the engineer dropped dead, does the train automatically stop?

Mr. GORDON: That is what we have in mind, and we started on a program two years ago to install dead-man controls.

Mr. DINGLE: We have it on all passenger diesels and will on all freight diesels 1200 horsepower or more. When this firemen's case came in we started to put them on all road and switching power.

Mr. DRYSDALE: With respect to the apportioning of firemen, how does your apprenticeship go in the future? Do you just become a fireman first and then become an engineer?

Mr. GORDON: That is something for the future, and a point that was very widely discussed over the last week. As we stand, we have roughly 3,400 firemen in service and all those 3,400 firemen are entitled under the agreement to remain in service under existing conditions until death, promotion or pension. The normal promotion route will be to engineer. Some years from now when we pretty well run out of firemen we will start a training program for the purpose of qualifying engineers.

Mr. DRYSDALE: Actually, what you will be doing is you will have firemen, but semantically you will not have the nomenclature of firemen?

Mr. GORDON: Yes, now it is an emotional term rather than a strict one, because there are no real fireman's duties left.

Mr. FISHER: One of the recommendations of the conciliation board was that for the duration of the forthcoming agreement firemen will not be removed from passenger and freight diesels. Has that been written into the new agreement?

Mr. GORDON: Yes, sir.

Mr. FISHER: So it is quite possible that this matter of the firemen in passenger locomotives may be adjusted in the next agreement or you may have found a solution?

Mr. GORDON: It will be a matter of adjustment at that time.

Mr. FISHER: And these agreements are for three years?

Mr. GORDON: This particular agreement is for three years. That does not get away from the obligation which we have at the time and written into the agreement that the firemen now in service will continue in service subject to the present terms and conditions of service so that we have got to find a place for firemen now in our service; and they are entitled to book on to any class of service which happens to require a fireman.

Mr. CHOWN: As to the agreement with your firemen, is that on all fours with the agreement the Canadian Pacific made with their firemen?

Mr. GORDON: Yes, it is. If there are any differences at all, they will be of a very minor character. But in principle, they are exactly the same.

Mr. FISHER: May I ask another question in relation to passenger service? You have made a number of changes in where you keep your auxiliaries or your hooks in relation to wrecks, and that sort of thing?

Mr. GORDON: Yes.

Mr. FISHER: In respect of these changes in disposition, are you perfectly satisfied that there is no possibility of a late arrival or too late arrival of such facilities at the scene of a bad wreck?

Mr. GORDON: Well, that is the basis of our study, of course. Our whole object is to put all our "wrecking facilities" at the most convenient point, to get there in the fastest possible time. But again, that is an operating matter and I think Mr. Dingle could speak to it.

Mr. DINGLE: We try to place our auxiliaries, Mr. Fisher, at points most suited to the needs. You are probably referring to the Port Arthur auxiliary?

Mr. FISHER: Yes.

Mr. DINGLE: We have moved it to Neebing because we find 75 or 80 per cent of the time the need was west rather than east.

Mr. FISHER: What about the auxiliaries between, let us say, Winnipeg and Capreol? I understand you have fewer of them now on that stretch?

Mr. DINGLE: No, I am not aware that we have fewer. I do not think there has been any change there, to my knowledge.

Mr. GORDON: It is exactly the same with the maritimes. To arrive at the main points of the line, we study all the changes in operation, the availability of diesels and so on in order to get this expensive equipment into place where we can get to the point of action fastest.

Mr. FISHER: Of course there has been a cutdown in the number of auxiliaries you are using?

Mr. DINGLE: I cannot recall that there is, Mr. Fisher. I should have to check on that, but I do not think there has been.

Mr. GORDON: I am certainly not aware of it.

Mr. CHEVRIER: To what extent have you dieselized on the system?

Mr. GORDON: I have the figure right here. I think it is shown in the report.

Mr. CREAGHAN: There is a section on it.

The CHAIRMAN: There is a section on dieselization.

Mr. CREAGHAN: On page 13.

The CHAIRMAN: I think we should deal with that when we come to it, Mr. Chevrier.

Mr. CHEVRIER: Fine, thank you.

The CHAIRMAN: Any other questions on passenger?

Mr. FISHER: In the first quarter of this year, have you an indication that passenger traffic is up from last year, Mr. Gordon?

Mr. GORDON: My recollection is that it is slightly up. The figures I have here are up to the end of April, and they show that the actual income from our passenger business is within half a million dollars of last year.

Mr. CROUSE: This is a question on the passenger service. There have been some preliminary tests made by the C.N.R. along the south shore of Nova Scotia, between Halifax, Mahone Bay, Bridgewater, Liverpool and Shelburne in regard to the possibility of extending a rail line service to these areas. I am wondering if the President of the C.N.R. could advise as to the results of these tests and what plans, if any, have been made to inaugurate this service.

Mr. GORDON: We have been making tests, as you say, down through that area. I have the particulars here. Perhaps I had better deal with this generally. We now have five oil-electric and 27 Budd cars in revenue passenger service. I can spell these services out for you, if you wish. Do you want to know them? Is there one particular point in which you are interested?

Mr. CROUSE: One particular point.

The CHAIRMAN: Where was it?

Mr. CROUSE: From Halifax to Mahone Bay, Bridgewater, Liverpool and Shelburne, and return.

Mr. GORDON: We have not come to a conclusion about that yet. The report came to my desk about two or three weeks ago. We are doubtful that it will measure up; but we have not come to a decision yet.

The CHAIRMAN: Are there any other questions on the passenger aspect?

Mr. FISHER: You have not reopened consideration of putting a rail line in from Port Arthur to Hornepayne? I know you have a bus service.

Mr. GORDON: We have a bus service there. You mean the one going out from Longlac?

Mr. FISHER: Yes.

Mr. GORDON: We think that that bus service is a better thing, from our point of view, than the Budd car.

Mr. CHEVRIER: Going back to the question asked a moment ago: is the C.N.R. making a study of transportation problems in the Atlantic provinces?

Mr. GORDON: Did you have in mind the general question of the committee?

Mr. CHEVRIER: Yes.

Mr. GORDON: We are in collaboration with the Department of Transport: it is their committee. We have no member on the committee as such, but we have been involved in providing information and giving them assistance on call.

Mr. CHEVRIER: Is the committee active? Have you been making recommendations or suggestions?

Mr. GORDON: I could not say whether or not the committee is active, because we do not attend every meeting; we just deal with specific points when we are invited by the committee to give assistance. But if the minister were here, he could say, I presume, whether or not the committee is active.

Mr. CHEVRIER: Have you any knowledge as to whether any additional services along the lines that have been suggested—additional transportation services—are in mind for the maritime provinces, arising out of this study?

Mr. GORDON: I have no such knowledge. If you are including in that the question of the Newfoundland service—

Mr. CHEVRIER: Yes.

Mr. GORDON: —we have, of course, made recommendations in respect of certain ships there, if that is what you have in mind.

Mr. CHEVRIER: Indeed I have. Could you tell us what they are?

Mr. GORDON: Yes. There are four coastal ships that we felt should be added to Newfoundland, and they are now in the hands of the Department of Transport for consideration.

Mr. CHEVRIER: Are these ships being built by the Canadian National?

Mr. GORDON: We are not looking after that: it is the government, the Department of Transport, that is responsible for calling for tenders.

Mr. CHEVRIER: That is what I wanted to know.

Mr. SMITH (*Simcoe North*): Two of them are about to be constructed now, are they not?

Mr. GORDON: Two were delivered.

Mr. SMITH (*Simcoe North*): Two are under tender now?

Mr. GORDON: Yes.

Mr. MONTEITH: It was mentioned this morning that there was—

Mr. GORDON: Excuse me a moment. There might be an item here on which there has been misinformation. There were four ships that we did talk to the government about as being necessary for the Newfoundland service; but before that, two new ships were put in service about 1956.

Mr. CHEVRIER: That is on the coastal service?

Mr. GORDON: That is the "Nonia" and the "Bonavista". They went into coastal service. The four ships we have since recommended are in the hands of the Department of Transport, and we have provided one of our men to assist them in the specifications, and so on, of these four ships.

Mr. CHEVRIER: To what service are they to be assigned?

Mr. GORDON: They will be assigned as follows: There will be a new passenger and cargo vessel replacing the "Burin" in the Placentia Bay service. There will be two new passenger and cargo vessels replacing the "Clareville" and the "Trepassey", and a new passenger and cargo ship to serve as a general utility vessel and standby on all coastal services.

We found, from experience, that in order to keep these ships in operation, it was wise to have one as a standby in case of damage, repairs and one thing and another. Those are the four ships I have made reference to.

Mr. CREAGHAN: While we are talking about boats, Mr. Chairman: is there any policy of the railway at the present time to increase the passenger service between New Brunswick and Prince Edward Island?

Mr. GORDON: I am sorry; I missed the first part of your question.

Mr. CREAGHAN: Is there any policy that you could mention today towards increasing the railway service by boat between New Brunswick and Prince Edward Island? The Prince Edward Island members are very concerned about it.

Mr. GORDON: Only in this respect, that there were discussions over the last few weeks in regard to improving the carrying capacity of the "Scotia II", and there is a program afoot now to put that ship in shape to take automobiles which it cannot do now.

Mr. CREAGHAN: In other words, it would supplement the existing three boats?

Mr. GORDON: It would add to the capacity of that ship.

Mr. CHEVRIER: Has the C.N.R. made any studies in connection with the construction of the causeway from the mainland?

Mr. GORDON: No, we have made no definite studies on that. I would certainly hope and expect that it would not be the C.N.R.'s job to build the causeway.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. CREAGHAN: Would you hope the proposed causeway would carry your trains as well as automobiles?

Mr. GORDON: That is a difficult question and requires a great deal of analysis. There are three alternatives that need to have very careful study. The building of a causeway with a rail access would add very, very substantially to the cost and would also contemplate, obviously, continuation of rail service on Prince Edward Island.

From a purely transportation point of view, it could well be—I am only outlining this; I am not stating it is my view—but these are the alternatives which should be considered—that a causeway built only for highway purposes would not only be cheaper, but if it were extended into a proper road system on the island, the island could have better transportation facilities without the railway. Or, thirdly, you might have a combination of both where you would have a causeway for the roadway only and a new type of ferry for the railway, quite different from the present ones. There are three choices to be examined.

Mr. CHEVRIER: How is the Canso causeway operating so far as the railway is concerned?

Mr. GORDON: Very well. It is just a line of railway and we have forgotten there was water there.

Mr. CHEVRIER: In the case of Prince Edward Island, of course, the distance is much greater. Do you not think it could be made to operate as efficiently if a railway line was laid on the causeway?

Mr. GORDON: From the point of view of the railway, if a causeway is feasible it would be possible to put a railway on it. We are not making the studies. The studies will have to be made on the basis of the cost and the economics involved. I have given three alternatives as I say. I am not setting myself up as a judge as to whether or not there might be other things. We are not making those studies.

Mr. CHEVRIER: May I ask a question about the railway in Newfoundland?

Mr. GORDON: Yes.

Mr. CHEVRIER: Has any study been made in respect of the changing of the railway from narrow to standard gauge?

Mr. GORDON: There is no detailed study at all on that. We have made a rough calculation as to what would be involved. Our opinion is it would involve a minimum of \$150 million. That rough calculation was made some time ago. It probably would be substantially higher today. It also involves the consideration that if a standard gauge railway were built there would have to be substantial changes, in my opinion, in the route of the line. The standard gauge could not tolerate the sharp curvature that now is there on narrow gauge railway.

Mr. MONTEITH (*Verdun*): This morning we were informed there were six private cars operating profitably. Is that right?

Mr. GORDON: There are six cars which are in revenue service for the purpose of special parties which are interested in cars of that type. Yes.

Mr. MONTEITH (*Verdun*): Is that profitable?

Mr. GORDON: I do not have the analysis in front of me. Certainly the tariff rates are quoted on the basis of making money out of them.

Mr. MONTEITH (*Verdun*): I understand there are six more private cars being built at Point St. Charles.

Mr. GORDON: Of the type you mentioned?

Mr. MONTEITH (*Verdun*): Yes.

Mr. GORDON: No. We have no revenue-producing cars of the type you mention in there.

Mr. MONTEITH (*Verdun*): I am informed the ones to which I am referring are private cars.

Mr. GORDON: These are not private cars in the sense they are owned by somebody. These are cars available to be rented by party groups, usually directors meetings and things of that kind.

Mr. MONTEITH (*Verdun*): Special cars?

Mr. GORDON: Yes. It is a case where a party rents a whole car and they have the service of the steward, and so on, for a party of sixteen or twenty persons.

Mr. MONTEITH (*Verdun*): Is it a fact there are six now being built?

Mr. GORDON: No, there are none being built now.

Mr. MONTEITH (*Verdun*): The information I have is that there are six bodies to be put on old carriage cars and they are being fitted at Point St. Charles.

Mr. GORDON: Certainly there are none for the purpose you mention. I do not know what you have in mind. It may be you are speaking of work cars and superintendents cars, and things of that kind.

Mr. MONTEITH (*Verdun*): The only information I have is that these six cars were to be delivered in February.

Mr. GORDON: From time to time we do provide cars for railway business purposes for the movement of general superintendents over the division. There may be some of those in production. Those may be what you have in mind. There are, however, none of the type you originally mentioned.

Mr. HORNER (*Jasper-Edson*): I was going to ask if the use of the Railiner and Budd cars is one of the factors in respect of your revenue per passenger mile increasing?

Mr. GORDON: I do not think so. There have not been enough of them to make much difference. I gave the figures of 32 which are in operation. Some of them have only been in operation very recently. I do not think they would have an effect.

Mr. BROOME: I would like to ask a very general question. In trying to run the railway as a paying operation, naturally there are certain lines which were productive at one time which, because of changing modes of transportation, are not productive any longer. Do you run into any difficulty, apart from the board of transport commissioners, junking obsolete lines or lines which no longer can come anywhere near paying their way? For instance, it might be trackage which would be taken up.

Mr. GORDON: Most certainly we do. I could say we run into difficulty about everything we do. If I can get away from that general reply, I should say it is a case that wherever there is a railway service which it is proposed should be abandoned we run into a very difficult situation. Often the objection is based on local pride, local prejudice and a fear that it is a reflection upon the community. We have to go through a very tedious process in that respect.

A few years ago we tried an experiment. At any of these points where we were proposing to abandon we sent three officials into the district to make a canvass of the various interests there in order to discover to what extent they were using the railway service and to what extent they intended to do so. We thought that by a little conditioning along that line we would have less opposition when we made our formal application. I am afraid it did not work. All it did was to accelerate the opposition.

Mr. CATHERS: Do you think in that regard that you have more difficulty than the C.P.R.

Mr. GORDON: That we have more?

Mr. CATHERS: Yes.

Mr. GORDON: Yes; very definitely, we do.

Mr. CATHERS: Why.

Mr. GORDON: Because the C.N.R. is the C.N.R. and because this committee is sitting here. The C.P.R. does not have to appear before a committee.

Mr. CATHERS: It is because the C.N.R. is government-owned?

Mr. GORDON: Yes; that is the answer.

Mr. CATHERS: That is the answer I wanted.

Mr. GORDON: I am not speaking critically. It is perfectly understandable that anyone in the community feels he has a personal interest in the C.N.R. If he would follow through that interest to the extent of giving us all his business I would appreciate it more.

Mr. FISHER: I am not asking for them, but I wonder if you have figures which would indicate the number of revenue passengers you need, say between Montreal and Vancouver, to make the Super a paying proposition?

Mr. GORDON: I do not have them with me. They could be secured.

Mr. FISHER: I do not want them. However, you have that as a yardstick.

Mr. GORDON: Yes.

Mr. CREAGHAN: Are not your first-line passenger trains running pretty well at capacity in the winter-time? I am thinking of the Ocean Limited.

Mr. GORDON: In the winter the Ocean Limited does very well; but the Super-Continental does not do very well in the winter, as that is the off-season. The peak is in the summer tourist traffic in respect of the Super-Continental.

Mr. CREAGHAN: Perhaps the opposite applies to the Ocean Limited.

Mr. GORDON: I am glad to say the Ocean Limited is a popular train the year around.

Mr. CREAGHAN: Have you any figures with regard to the capacity of the Ocean Limited.

Mr. GORDON: We can get them. We carry on very careful examinations in order to make our operation as profitable as possible. We have examined the passenger business in general terms in order to see whether or not we could in fact maximize or at least improve our passenger carryings by improving inter-city travel. We still have studies going on and we are getting interesting information. As we go along we are finding that it is one thing or another. If we are to specialize in inter-city traffic, then we could not have the continuous Super-Continental service. The two things do not fit.

Mr. CREAGHAN: I remember that last year you said that you were going to try to concentrate on commuter service and inter-city service.

Mr. GORDON: Not commuter service, unless I was speaking of concentrating on getting rid of it.

Mr. CREAGHAN: My understanding of it is that last year you thought the long-haul service would go to the jet age and that you would be holding the inter-city service and commuter service. Could this inter-city service be interpreted as a service between Montreal and Halifax?

Mr. GORDON: Yes, or between Winnipeg and Regina or Montreal and Toronto.

Mr. CREAGHAN: I was concerned about that statement "inter-city", affecting long-haul inter-city movement—something under 500 miles?

Mr. GORDON: No, that is not what I had in mind.

The CHAIRMAN: Is the passenger section carried? If so, we will proceed to "express". When Mr. Carter left he said he would have one question to ask on passenger service. He wanted to be in the house for something else and I

told him, with the committee's removal, we would revert to "passenger" for his one question, provided you all understood it and you each did not have an additional question.

Mr. FRASER: I have a question on the subject of express. In the report here it says you pick up your revenue on packages less than 100 pounds; does the postal community service bother you any in connection with that?

Mr. GORDON: Yes, postal packages of that class are directly competitive with us.

Mr. FRASER: I understand the New York Central pulled out of the American express agreement owing to the fact they could not compete with the postal service.

Mr. GORDON: That is right.

Mr. FRASER: And it is affecting the railways here.

Mr. GORDON: Yes.

Mr. FRASER: Is there any remedy?

Mr. GORDON: Not unless you put the post office out of business.

Mr. FRASER: We do not want to do that.

Mr. GORDON: The curious fact is that we carry post office parcels anyway.

Mr. FRASER: But then their rates are cheaper than yours.

Mr. GORDON: Yes.

Mr. FRASER: What percentage cheaper are they?

Mr. GORDON: I do not recollect. It is marginal. It is not substantially cheaper on certain types of parcels.

Mr. FRASER: Yes, up to a special weight.

Mr. GORDON: Yes.

Mr. FRASER: Is it not 25 pounds?

Mr. GORDON: It is around there; I cannot remember exactly. You will find the rate differences are marginal and that the post office is more competitive in regard to certain types of packages.

Mr. CREAGHAN: But your charge on an express parcel includes delivery, if you have such a thing in the community concerned.

Mr. GORDON: Yes.

Mr. CREAGHAN: Whereby the post office have to deliver it and use you as a carrier.

Mr. GORDON: We carry it from station to station, but they make the delivery of their own parcels.

Mr. CREAGHAN: Your rates are comparable then?

Mr. GORDON: Competitive anyway.

The CHAIRMAN: Are there any other questions, gentlemen? If not, we will proceed to "communications".

Mr. BROOME: I have one question in connection with communications. In regard to cables do you have an agreement with Western Union?

Mr. GORDON: Yes.

Mr. BROOME: The C.P.R. operate through the Canadian Overseas Telecommunications Corporation?

Mr. GORDON: Yes.

Mr. BROOME: Which is a government organization, plus participation by the C.N.R. and the C.P.R. How long does your agreement have to run with

Western Union? I ask you this because it would be more advantageous for you to send your cables over a Canadian corporation rather than through an American corporation.

Mr. GORDON: Yes and no.

Mr. BROOME: If you want to cable all Canadian you cannot cable C.N.R.

Mr. GORDON: That is right. It is an involved question and I can only deal with it in a superficial way. We have had a long-standing agreement with Western Union. I have forgotten the date of expiry but I think it is around 1966. In any event, we receive benefits from it in respect of the direction of traffic between here and the United States; and the fact is we cannot have both at the same time under the general agreement. It is shown that we are better to carry on as we are than to attempt to break the agreement, even if we could. And, of course, we could not do that, we would be breaking an agreement.

Mr. CHEVRIER: What if the agreement came to an end?

Mr. GORDON: There is an opportunity then.

Mr. CHEVRIER: To enter into an agreement with the C.O.T.C.?

Mr. GORDON: Yes.

Mr. CHEVRIER: When does the agreement come to an end?

Mr. GORDON: I think it is 1966, but I am speaking from memory.

Mr. CHEVRIER: Is it not a fact Mr. Minister that you are contemplating the addition of several more cables across the Atlantic which will bring the number up to thirty-six?

Mr. HEES: Offhand I do not know the exact number.

Mr. CHEVRIER: Following up this question, would not that be an enticement to the Canadian National Railways, if there are more telephone cables installed in this circuit from Newfoundland to the United Kingdom?

Mr. GORDON: Not necessarily. I think it would be more advantageous for the committee and myself if I were to prepare a statement between now and tomorrow morning in relation to this matter; it is very complicated.

Mr. CHEVRIER: Yes, and it is important.

Mr. GORDON: I will be glad to prepare a brief statement and give it to you in the morning.

Mr. BROOME: I would like to have your statement because a corporation like the C.N.R. should be tied in with another government corporation like the C.O.T.C.

Mr. FISHER: Have you had any negotiations or dealing with a group which, I believe, is going under the name of Narconn, who are interested in putting a relay service across the North Atlantic by long-range microwave beaming?

Mr. GORDON: I have not. Our communications may have had, but they have not yet reported it to me.

Mr. FISHER: Mr. Minister, have you had any discussions in connection with this particular group who have had this long-range plan? It concerns a television beam plus a number of—

Mr. HEES: They have been in touch with the department but nothing very definite has been worked out.

Mr. FISHER: They have not made any proposals?

Mr. HEES: No.

Mr. SMITH (*Simcoe North*): Paragraph 20 deals with the extension of the microwave system; how extensive is the C.N.R. microwave system?

Mr. GORDON: At the present time the C.N.R. and the C.P.R.—and you will understand in connection with microwave the C.P.R. and C.N.R. are in joint account in most places—have in operation the following microwave systems: Toronto—Hamilton—Wingham—Kitchener—London, which is engineered and maintained by the C. N. R.; London—Windsor, engineered and maintained by the C.P.R.; Montreal—Sherbrooke—Three Rivers, engineered and maintained by C.P.R.; Quebec—Jonquiere—Romouski, engineered and maintained by the C.N.R. The C.P.R. are presently engineering a microwave network from Rimouski to Mount Carleton, which will be maintained by the C.N.R. We are now working on a quotation with the C.B.C. for the provision of a television service from New Carlisle to Moncton.

Mr. SMITH (*Simcoe North*): They are not used exclusively for television work.

Mr. GORDON: No. There is one other item. The C.N.R. is also completing a microwave system from Sydney, Nova Scotia to St. John's Newfoundland for television purposes, to be followed within a few months of its inception with general communications. In covering the point you are mentioning, I should say that when we install these microwave facilities we get as a by-product a means whereby we can enlarge our general communications.

Mr. SMITH (*Simcoe North*): That gives you a reason for being in the business.

Mr. GORDON: Yes. There is a very large—I do not know whether I should say this or not; I am troubled about some of this because they are on the classified list and I am not supposed to discuss them. However, I will make a general statement. We have been working with the Washington authorities in connection with another microwave extension of some size. It is on the classified list.

Mr. SMITH (*Simcoe North*): My question was meant to see whether it was exclusive for television work or whether it fitted into the general pattern.

Mr. GORDON: It gave us a very useful opportunity to obtain a by-product development of the general communications business.

Mr. CHEVRIER: What revenue is derived from the lease or operation of the microwave system?

Mr. GORDON: We make a definite quotation to the C.B.C. for a particular broadcast or operation of the facilities, but in addition to what we obtain from the C.B.C. for their particular purposes—maybe television or maybe radio—we then have an enlargement of our general communications business.

I would have to take each specific point to see what the revenue was, but in general, we quote the C.B.C. on a “knock-down basis”, with the general idea that our bids are near cost as possible, and it depends on the enlargement of other activities as to how much our profit margin is.

The CHAIRMAN: Are there any other questions?

Mr. HORNER (*Jasper-Edson*): Have you any microwave facilities in western Canada?

Mr. GORDON: Not yet. They are in the process of being developed.

Mr. HORNER (*Jasper-Edson*): Is that classified?

Mr. GORDON: That is one of the items I had in mind. It is classified with the United States at the moment. It is a pretty wide open secret though, and I do not think I am giving anything away.

When that goes through it will give us a by-product, again, where we can enlarge our general communications.

Mr. FISHER: What is the situation at the present time with regard to a repeater station at Fort William, Mr. Gordon?

Mr. GORDON: Is that the subject upon which we were in communication with you, Mr. Fisher?

Mr. FISHER: That is the one.

Mr. GORDON: The situation is exactly as I described it before.

Mr. FISHER: At what stage is the construction, or your preliminaries to construction?

Mr. GORDON: I do not know, and I am not up to date on that myself. I know it is going ahead in the routine way, but I have forgotten the phase which it has reached. However, there should be nothing holding it up.

Mr. FISHER: You would not say in connection with this that your whole planning program was dictated by the Bell Telephone Company?

Mr. GORDON: It was dictated entirely by our own finances and our own efforts to reduce costs, and to minimize the loss of profits.

Mr. FISHER: You realize there are such things as inter-city rivalries at the lakehead?

Mr. GORDON: Yes, I have observed that.

Mr. FISHER: You are absolutely positive on this particular point, that the move of these facilities from Port Arthur to Fort William will result in substantial savings?

Mr. GORDON: Absolutely. I would say in a general way that we are directly and positively in competition with the Bell Telephone wherever we meet them, and we have no arrangement of any kind with them. The arrangements made at the lakehead for our own facilities are dictated entirely by our own selfish interests.

Mr. GREAGHAN: In the case of hotels, you make a statement in your report—

Mr. GORDON: We are not dealing with that.

Mr. GREAGHAN: I am on the subject of communications. In the case of hotels you say you have a net income of so much. Under communications, it is set up much like hotels. There you have had an increase of 25 per cent in your revenue. Can you say whether or not you had a profit from your communications department?

Mr. GORDON: That is one of the main things we are trying to sort out ourselves. It is not set up on the basis of hotels as such, and Mr. Toole is now in charge of an extensive examination which is being carried out. We are trying to establish a basis where we can state exactly what our results are. There is an indication of a profit over-all, but I am not satisfied we have accurate information on that as yet.

Mr. CREAGHAN: That is a policy you are trying to develop?

Mr. GORDON: Yes, it is.

Mr. TOOLE: It is a question of separating joint costs, where your communications are serving both rail and commercial services. You have to make some selection, and then you can find out what comes under the two headings.

Mr. CREAGHAN: You have to charge the company so much?

Mr. GORDON: The railroad.

Mr. TOOLE: We are in the process of trying to arrive at maintenance costs so we can have a more realistic picture of the results of operations.

Mr. CREAGHAN: Can you tell the committee whether you made a profit or a loss in the express business? There is no statement to show whether or not you had a loss.

Mr. TOOLE: This comes in much the same area. In both these items we have an apparent profit. Both of these items are in the process of separation, and although our accounting is in accordance with the Board of Transport Commissioners, it does not bring it out.

Mr. CREAGHAN: The day may come when your communications may be making a large profit, or the management of the railway may not be sure of the fact, and the result may be that outside industry will come in and take away some of the business.

Mr. GORDON: The communication business has grown enormously over the past few years. We are not satisfied with the actual bookkeeping results, and that is why we are having Mr. Toole undertake a breakdown, so we can see what the results are.

Mr. CREAGHAN: It may be a very interesting result to see, because it would be nice to know whether you are making money, where you are making it and where you are losing it.

Mr. FISHER: I wonder if the minister could make any comment on point 22 under communications?

Mr. HEES: What kind of statement? What kind of statement would you like other than the very clear statement contained in that paragraph?

Mr. FISHER: What does it mean?

Mr. CHEVRIER: What field does that cover?

Mr. FISHER: What is the cost? Are you satisfied with the services?

Mr. HEES: I cannot give you the cost, but we are very satisfied with the service.

Mr. CHEVRIER: Since when has it been in operation?

Mr. GORDON: I have a note on it, Mr. Minister, and perhaps if I read that—

Mr. HEES: Yes, that may be of assistance.

Mr. GORDON: The situation here is that the Canadian Pacific and ourselves provide telephone circuits between air traffic control centres at the major airports in Canada with some extension to radar sites. Some of these circuits terminate in a telephone hand set, and others in push-button equipment to enable two circuits to be connected together for an extended call.

The provision of facilities was secured by the railways on the basis of the lowest quotation for a firm period of five years from February 1958, and, thereafter, from year to year.

The quotation runs from 1958, and that is when the service went into operation.

I have figures of cost to the Canadian National, and we have the revenue, but since this operation is between the C.P.R., ourselves and air traffic control centres, I do not think I should go on with this kind of detail.

Mr. CHEVRIER: Could I ask you a question in regard to 17? What prompted you to purchase the Yukon Telephone Company Limited when, not so many years ago, I think the C.N.R. and/or the department—and I am not too sure about that—got rid of this telephone and telegraph service in the province of British Columbia to the B.C. Company?

Mr. GORDON: That was the division of services, you will remember. That government telephone service in B.C. was divided between the C.N.R. and the province of British Columbia. They took a portion of it naturally, for internal lines. But we did salvage a portion of that service and that came under the Northwest communications System. This is how I recall the situation.

Mr. CHEVRIER: They took the telephone and you kept the telegraph?

Mr. GORDON: Yes, I think that is the general basis.

Mr. CHEVRIER: That is because it was unprofitable, I presume?

Mr. GORDON: We took it on because it was unprofitable?

Mr. CHEVRIER: No, you got rid of it. My recollection is that a portion of it was operated by the department and a portion by the Canadian National Railways. I may be mistaken, but my recollection is that those services were sold.

Mr. GORDON: No the situation was that the Northwest Communications System was owned by the Department of Transport, and we were the operators. The other government system to which you refer was owned by the department.

Mr. CHEVRIER: Is that the telephone?

Mr. GORDON: Yes. It was decided to get rid of it, and it was then split up between the B.C. government and ourselves. We each took our portion of it.

Mr. CHEVRIER: You were not interested in the telephone side of it at all.

Mr. GORDON: I am not absolutely certain about that. I think there was a portion where we did take the telephone service too.

Mr. CHEVRIER: My point is this: do you think—

Mr. GORDON: We had been after this Yukon telephone company as a natural extension of our services for some years, but we had not been able to make a deal at a price which we thought was reasonable. However we finally got to the point with the individual who was concerned where we got down to a reasonable price and we negotiated the deal. I may say that the cost to the Canadian National Railways was \$625,000, and that the assets of the company included a 400 line automatic telephone exchange, a building with office equipment and accommodation for the staff, extensive outside plants, some maintenance vehicles and storage buildings in Whitehorse, a 30 line manual switch board, and a building to hold the line maintenance vehicles at Mayo which is 200 miles north of Whitehorse. The exchange in that area gives us control of all that business in the region.

Mr. DRYSDALE: Last year about the same time and place an hon. member asked whether or not the Canadian National communications was a profitable part of the Canadian National Railways operation and Mr. Gordon gave this answer:

Yes, it is included in with the operations. Broadly speaking this is a profitable operation. In fact, I go further and say here that on our most recent analysis all the operations of the Canadian National Railways are profitable except railway operations.

Has that situation changed?

Mr. GORDON: No, that statement still stands.

Mr. DRYSDALE: Thank you.

The CHAIRMAN: Are there any other questions? If not, let us proceed to operating expenses. Operating expenses fell to \$700 million in 1958, 4.7 per cent below the 1957 level of \$734.6 million.

Mr. CHEVRIER: May I ask a question under operating expenses which has to do with the movement of empty freight cars. I think last year it was indicated that about one half of the cars of the system moved empty. I wonder what the position is in 1958 and whether any decrease in the movement of empty freight cars has been effected. I refer now not only to the movement of empty cars to Churchill, but also to Vancouver.

Mr. GORDON: If you will turn to page 37 you will see first of all the statistical position. These are car miles, and in the table below, empty freight cars in terms of car miles.

Mr. CHEVRIER: Yes. There were 625,000,000 empty freight car miles. Am I looking at the right line?

Mr. GORDON: The freight service shows that for empty freight cars we had 625,143,146 car miles; and under passenger service you will see another item which is a relatively small one which totals 171,597.

Mr. CHEVRIER: My point is this: if you look at the figures for 1957-58, they are about one half loaded freight cars.

Mr. GORDON: Yes, roughly one half of the loaded car miles.

Mr. CHEVRIER: Is there any way in which the railway can reduce this empty car movement? Or do most cars go loaded one way always, and come back the other way unloaded?

Mr. GORDON: Not always. There is a great movement in handling the grain crop where, generally speaking, we have to move the car empty across to get the grain loaded. In other words on this movement we do not have as many loads going from east to west as we do coming from west to east. That is about the right statement.

Mr. CHEVRIER: I suppose the movement to Churchill is the greatest in that respect?

Mr. GORDON: Pretty much a one way movement, yes sir.

The CHAIRMAN: Are there any other questions on communications?

Mr. FISHER: We are on operating expenses, Mr. Chairman. The average number of employees last year dropped by approximately 11,500.

Mr. GORDON: Yes.

Mr. FISHER: Can you give us any indication of how much of that figure is a real drop in the working force, and how much of it may be taken care of by lay-offs or temporary lack of work? This is something that is of the greatest concern to the people in connection with the railroad. I mean this wearing away of the labour force.

Mr. GORDON: I shall take this figure for the Canadian lines which I believe is the one in which you are most interested. In the Canadian lines the drop is roughly 10,647, and the balance is in our other lines in the United States. We estimate in round figures that we can attribute 3,800 due to decline in traffic, 4,000 due to technological changes, and 1,400 that we credit to improved supervision and organization of work methods; also about 1,400 which are not identified for a specific cause, but which represent among other things a more rigorous staff control. In other words, there has been a tightening up all through our employment picture in an endeavour to bring our work force in to relation with our traffic position.

Mr. FISHER: Could you also give us the figure of retirements, or normal retirements in the year, which would indicate whether that factor comes in, because I think it is related.

Mr. GORDON: I have that figure, if you will just wait for a moment. I am sorry to delay you, but if I do not have it myself, it takes time. There were 25,054 at the end of 1957, and 26,166 in 1958. If I check under 1957 as compared with 1958, the increase in the number of pensioners shown is 1,112, but that does not give you an exact figure because some have died. It is closer to a 2,000 figure.—I would say a round figure would be about 2,000.

Mr. FISHER: The next question I hesitate to ask. How many people did you hire in 1958?

Mr. GORDON: About 7,500. I should state that approximately 105,000 people applied for jobs and we took into our employ, I think, about 7,500. I have it here.

The CHAIRMAN: Would that not come under the next item, compensation to employees?

Mr. FISHER: Well, it is the same heading.

Mr. GORDON: I have it here now. The employees added to our staff from employment offices numbered 4,865; and there were 105,369 applicants considered through 1958 in our employment offices.

Mr. FISHER: That would indicate that you are a popular employer.

Mr. GORDON: It would indicate that we are a very good employer.

Mr. FISHER: Coming back now to these figures of the drop of the attrition or whatever you want to call it, 4,000 of these jobs were, let us say, done away with by technical change, that is, they became redundant?

Mr. GORDON: Yes.

Mr. FISHER: Now, what about those 4,000 people, if you can think of them in terms of persons and the opportunities that were opened up to them by retraining for other jobs?

Mr. GORDON: That opens up a very large subject. But we have a very intensive retraining program which we may as well deal with, and I will give the highlights.

Mr. FISHER: Is there anything you can put on the record of the committee?

Mr. GORDON: Yes I can. First of all, I wish to say this, that the company makes every effort to minimize the effects of the technological changes, mechanization or automation on employees and we have instituted various retraining programs for the benefit of the personnel involved.

Starting with the training of steam locomotive engine men in the handling of diesel locomotives. This commenced in 1951. Up to the end of 1958, a total of 3,487 enginemen who are still in service, have passed qualifying tests. I am only talking of those remaining still in service. There would be more than that if I counted those who have since passed out of the service. Out of that total, there were approximately 300 qualified in the year 1958 alone.

In the training of shop mechanics previously assigned to steam locomotive maintenance to handle diesel locomotive maintenance, we have conducted, commencing in 1952, regular classes which are presently held at the Moncton shops and Moncton roundhouse, Campbellton, St. John's, Newfoundland, Halifax, Saint John, New Brunswick, Sydney, Edmundston and South Devon. That is in the maritimes. There are also classes at Point St. Charles, Toronto, Fort Erie, Hamilton, Sarnia, Cochrane, Limoilou, Joffre, Belleville, Stratford roundhouse, Garneau, Chauvigny, London, Senneterre, Allandale, Turcot, Capreol, Hornepayne, Mimico, Niagara Falls, Windsor, Longue Pointe, Sudbury, Palmerston, Nakina and Cote de Liesse. Then, further west, Neebing, Port Arthur, Transcona, and Calder.

The summary of the enrolment up to the end of 1958 was 2,856.

In addition to that, we have training of maintenance of way employees in the operation and maintenance of newly introduced mechanized equipment to qualify them as machine operators, to place them in a higher wage earning category. The training of these employees commenced in 1954 and is conducted on what we call an "on-the-job" basis, except on the western region, where classes are held at Winnipeg. Up to December, 1958, 1,729 employees have been trained in those duties.

I can go on and give you many others. But I will cover them in a generalized fashion.

In the training of clerical employees: in the operation of mechanical and electronic equipment we have a program, having in mind as we make changes in equipment in our own system, we do retrain our own employees and very seldom do we have to go out of the organization for them.

Then, we have training in certain types of communications employees and this commenced more than 25 years ago and has advanced over the years. As an example, in 1958 a major change in communications procedure resulted in

the installation of reperforator switching in Montreal, affecting 132 employees. Of this number 35 were retrained in the new skills required and either retained their former rates or were upgraded. Forty-two automatic operators were relocated in other cities, 8 clerks were absorbed elsewhere in the railway organization and 22 routing aids were placed in clerical positions. Only 25 employees out of the total of 132 were laid off, subject, of course, to recall and all of these had less than two years' service. In this particular situation due to the introduction of new machines and techniques, 35 new positions were created that required retraining, including 8 supervisory and 15 new technical positions.

We have a great many other types of training programs and we do it as far as we can on an "on-the-job" basis. But perhaps it would be of interest to give you that information on personnel who become redundant as a result of new equipment or technological change. We do our best, first of all, to place them in other jobs within our organization. But there is a major qualification in that case because our efforts in those respects are severely limited by the craft seniority provisions in our wage agreements. We have had a number of discussions with our union friends but we find ourselves pretty well at an end because we cannot transfer between crafts. That has been a question of intensive discussion between ourselves and labour organizations. We have had very little success in that respect.

Again I hasten to add, I am not speaking critically but factually, because there are good reasons from the standpoint of the union organizations in not transferring between trade groups, which would have a very upsetting effect on the application of seniority provisions. Therefore, transfers are limited by point and craft seniority provisions.

We have also quite a number of other training programs of more senior personnel,—for instance, our engineering program where we take on young engineers and train them in the operating and research departments. We have training programs for employees in our passenger and freight traffic maintenance of way and B and B departments. We have supervisory training within our B and B and MP and CE departments. Regular courses are held for development of craft skills, and a systematic development of the freight traffic representatives.

Several years ago we established a staff training course which was of six-weeks duration at the university, at Lennoxville, Quebec, during the summer season. We bring in young men with management potential and subject them to specific training courses in administration and management development. I think our general record in regard to training courses and providing opportunities is recognized on the North American continent as one of the best.

MR. FISHER: It may be recognized, but the point that bothers me is that there does not seem to be enough known about it.

MR. GORDON: Well, I can assure you it is known to the individuals concerned.

MR. FISHER: This is just a point I do not wish to take issue on. This goes back to the just complaints I have received from firemen and people displaced at divisional points that they do not know of any opportunities for retraining, they do not hear about them. I am speaking of maintenance of way people and the running trades people. I would like to know something about opportunities that may be opening up, with new types of changes you are making and how much opportunity there is for these people in the redundant classification to work into the new field where there will not be trade grouping, or at least we would expect there may not be trade groupings at the present time.

Mr. GORDON: Well, of the 3,487 enginemen I indicated on December 1958, only 156 or about 5 per cent are not qualified to work on one or more of the respective makes or classes of diesel locomotives. That is as near to a 100 per cent record as you can get.

I think there is a point here I will explore for a moment. It should be realized that the organization of the Canadian National Railways as such operates in relation to its working forces through a very widespread labour organization that represents every particular trade. I think as an example which will cover the point you have in mind, I had prepared for me the other day the organization of the Ottawa division. We took it just as an example, but it is typical of the organization that goes right through the country. In the Ottawa division the Brotherhood of Railroad Trainmen, represents conductors, baggagemen, brakemen, yardmasters, yard foremen, yard helpers and switchtenders, there are 220 employees and they have a local chairman in Ottawa who is in constant daily touch with our superintendent's department. If he does not get satisfaction there he goes on up the hierarchy, to the vice-president of operations if necessary. The Brotherhood of Locomotive Engineers represents locomotive engineers and has 56 employees and again a local chairman.

The Brotherhood of Locomotive Firemen and Enginemen, representing locomotive firemen, helpers and hostlers, and also has 56 men and a local chairman.

The Order of Railroad Telegraphers, representing train despatchers, agents, agent operators, operators, levermen and assistants, has 93 members and a local chairman.

The Canadian Brotherhood of Railway, Transport and General Workers, representing clerks and other classes of employees, labourers freight shed employees, truck drivers, motormen and garage men in the department of road transport, clerks-porters, motormen and express messengers in the express department have a total of 293 in Ottawa, and they have three different local chairmen covering the branches in this division.

There is the Brotherhood of Maintenance of Way Employees, which represents section foremen, sectionmen, extra gang labourers, carpenters, painters, bricklayers, pump repairers, and there are 394 of those in Ottawa with two local chairmen.

There is the Brotherhood of Railway Signalmen, representing signal maintainers, assistant signal maintainers and signal helpers. They have only six employees but have also a chairman.

There is the International Association of Machinists, representing machinists and machinist helpers, with seven employees and a chairman.

There is the International Brotherhood of Boilermakers, Shipbuilders, Blacksmiths, Forgers and Helpers, which represents boilermakers, blacksmiths and helpers, of which there is only one employee and a chairman.

There is the International Brotherhood of Electrical Workers, representing electricians, of which there are eight employees and a chairman in Ottawa.

The Brotherhood of Railway Carmen, representing carmen, have 85 employees in Ottawa and a chairman.

There is the United Association of Journeymen and Apprentices of the plumbing and pipe-fitting industry, who represent plumbers and pipefitters, having four employees and a chairman.

In connection with all matters that affect the labour organizations, arising out of mechanization or technological changes, they are fully discussed with local representatives of the labourers or the trademen involved. They are fully informed when we make any particular decision.

At that time if there is an opportunity for transfer and if these considerations I have mentioned in regard to seniority do not prevent it, any adjustments possible in the local division are worked out at the time of discussion at the local point, and if the plan is feasible, it is adopted.

The reference you made, that there is abroad in the minds of some of our people the thought that there is a lack of planning this is not so; but we cannot have it both ways. If we plan at all we must experiment, we must test, we must analyze, and we are not ready to make our decisions until we have done that.

When we come out of that planning and testing and discussing and making examples, or trying to analyze that, because it is extremely important to be able to answer the question with directness and certainty, that cannot be avoided. We have found from experience that it is far better for us to go ahead with our planning until we have got to the point of being able to make a definite decision; and when we have our plan clear in our minds of the impact on the particular employee, at that point we call in the labour representative and supervisory staffs and try to work out that point.

For example, in your own area, the northern Ontario district, our dieselization program is complete. The impact generally that is going to take place in that area has happened; it has occurred.

Take, for instance, our Point St. Charles shops in Montreal, the largest steam shop in the service. There it went completely out of commission as a steam shop several years ago, and not one single word was heard about it because it just worked out in the natural course as we managed to bring out the diesel operation and work out the different procedures with our labour representative. My suggestion is that there is a very adequate system, a very developed system, indeed, whereby individual employees are taken care of by the men who are appointed by them for that purpose.

The union representative is a competent, knowledgeable fellow; he is well informed on the detail and thoroughly qualified to represent the interests of those men. We have found from experience that is the best way to deal with it.

Mr. FISHER: Well, just in this regard I might put on the record a resolution which was forwarded to me by the local chairman at one divisional point. I would ask that you forego his name, but here is the resolution—

Mr. GORDON: Mr. Chairman, I do not like to be difficult, but I do not like anonymous documents.

The CHAIRMAN: I think if you are going to put it in you should mention the name.

Mr. FISHER: All right, it is Mr. D. C. Fraleigh, local chairman and legislative representative, Brotherhood of Locomotive Firemen and Enginemen, Lodge 893, Box 372, Hornepayne, Ontario.

Whereas: It is deemed that the present operational policy of the Canadian National Railways is detrimental to its employees and the public at large and creating dissention and hardship, due to their utter disregard for adequate safety precautions and to the dislocation of employees with many years of faithful service.

And the resolution goes on: be it resolved to ask for a royal commission.

That is not the only one. I have one from Sioux Lookout, one from Nakina, one from the chairman of the locals there, and the answer appears to me to be that the cooperation or liaison in our particular region is not working out.

Mr. GORDON: I can say in that respect, because of the suggestions along that line that you have made in the House of Commons, our vice-president of the central region, accompanied by a senior officer, made a special trip to examine the circumstances that you mentioned. In particular he interviewed one of the men who had made statements along that line.

As a result of that, the individual in question completely withdrew his charges and apologized for them as being non-factual. We invited him to prove his statement and he was not able to do so.

It is human nature, of course, that you are going to get extravagant resolutions passed, although I wonder why it is that the resolutions are not sent to the president of the railway.

Mr. FISHER: Well, I think one of the facts there is, of course, probably because the gentlemen are at the same time employees of the railway.

Mr. GORDON: But they are representatives of the employees. It is their duty to send it in. They are appointed by the union.

Mr. BROOME: I resent that inference, Mr. Chairman, and I think it should be withdrawn.

The CHAIRMAN: What do you mean?

Mr. BROOME: The inference made by Mr. Fisher that they are afraid to communicate with the railway because they are afraid there will be reprisals taken. We all know the unions on the railroad are the strongest in the country and they have strict rules governing their operation. I resent the reflection made by Mr. Fisher.

Mr. FISHER: I will not withdraw that in any way, shape or form. I am not here looking for a quarrel, but that is the situation and I have to make this as a statement.

The CHAIRMAN: It is your opinion?

Mr. FISHER: No; I went into Hornepayne after Mr. Kyle and Mr. Bowra had been in there and talked to the gentleman they interviewed. While he did admit certain exaggerations there was no doubt in my mind, the way it was expressed to me and other people, that one of the reasons he was prepared to withdraw was because he was worried about his job.

Mr. GORDON: He couldn't be more wrong. Of course, we are always exposed to that allegation, but as a general statement, no labour representative has any fear at all about talking to management. Management can be reached by the union almost any day. Mr. Dingle has been in close touch with operations. He has also been a practical railroader, although I have been told I am not. Nevertheless, Mr. Dingle has grown up in the railway. He has been in practically every position in the operating department and I would like him to state quite freely, without any domination or fear of me—and I can assure him he has none—if you believe, Mr. Dingle, in all your experience if you have ever known any labour representative having the slightest fear or hesitancy to tell you or me where we get off at?

Mr. DINGLE: None whatever, sir.

Mr. FISHER: I have a copy of the letter that Mr. Dingle sent to the federal member for Kenora here. It was published in the Sioux Lookout paper and I might say right after this letter was published I had a letter from one of the local chairman there saying this was not good enough as an answer, because it did not spell out clearly enough what the future role was going to be for the railroaders of Sioux Lookout.

Mr. HEES: Might I ask Mr. Fisher a question here? Have you at any time ever known any railwayman who has had his job threatened or taken away, or in any way been intimidated by any official of the railway? You talk as though these men are in fear and trembling of their jobs.

Mr. FISHER: This is what they told me.

Mr. HEES: Have you anything to back it up? You say you have gone into this quite thoroughly. I think this is important. If that is true, then there is something wrong with the management of the railway, or if it is not true—and I do not think it is—then it should be cleared up.

Mr. BROOME: And, further, may I add Mr. Fisher should have investigated this before he came along.

Mr. HEES: Have you any knowledge, from your investigations and dealings with men on the railway, that there is any foundation for saying that any one of them has been in fear of losing his job?

Mr. FISHER: Yes.

Mr. HEES: Who was the man, and what was the case?

Mr. GORDON: I can give you examples, Mr. Minister. I can produce, and I am willing to produce, letters—subject to the ones who asked me not to publish their names—in the last firemen's case from individual firemen who told me they are in fear and trembling of their union leaders.

I have had the most pleading letters from members of that individual organization asking me to allow them to find some way whereby they could vote, instead of being under the domination of those leaders. I can produce those, if necessary.

Mr. BROOME: Where they could vote secretly?

Mr. GORDON: Yes; and that is the only occasion on which I have known of men exhibiting any fear in the railway.

Mr. FISHER: We are getting away from the point.

The CHAIRMAN: You have never really got to it yet. I think Mr. Broome's point is reasonably well taken.

Mr. SMITH (*Simcoe North*): Is it not the fact that the only accommodation some of these people want to make in regard to technological advances is that their jobs be continued in the present state, and they themselves will not make any adjustment? I am not only speaking in regard to the railroads. I have talked to employees in many different industries, and in the railroad, having regard to the changes in Allandale.

It seems that there is an attitude sometimes—particularly among the more senior employees—that they do not want to make any adjustment whatever of their own personal jobs, and they do not want, particularly, to be retrained.

Mr. GORDON: I would like to make myself clear on this. I would not like the impression to go abroad that I am in any way unsympathetic in this regard. When we have a major technological change, various people have to adjust themselves to it. Change is very seldom comfortable; it is a difficult operation, and we quite appreciate that. My only point is that, as management, we have been as considerate as management could possibly be, all things considered.

But that does not get away from the fact that there will be individuals who find that their way of life has changed. They have to adjust themselves to circumstances and, naturally, some are going to be worried; some are going to express themselves as dissatisfied. They cannot help it. But I have found from experience that when change is inevitable, the men who adjust themselves to it are usually happier in the long run than keeping on crying for things that have gone. It is no use crying for the past; it has gone. You might as well say we should have the horse and buggy back, or the hand-loom for manufacturing textiles. I am sure many people have been dissatisfied over the years as a result of changes.

These men can adjust themselves, in view of all the opportunities given to them by us. We do the best we can. Goodness knows, it is not 100 per cent.

But I do assure you, Mr. Fisher—I am not criticizing you for bringing this matter up at all—that when you suggest that these men are going about in fear of management, I deny that, and I would be most upset if that were true.

Mr. FISHER: I did not say I necessarily believe them, but this is what I am told. I have four divisional points in the C.N.R., and it is not only individuals, but communities, who are concerned. My suggestion to Mr. Kyle was that he go up and do a public relations job in these communities. I am speaking of communities such as Sioux Lookout and Hornepayne. As a Member of Parliament, personally I am sick and tired of getting this kind of repetition.

Mr. GORDON: I will tell you why you get it. You get it because you listen to it. Let me tell you my experience, in reverse. When I go around, I suppose the answer would be that nobody tells the boss: I have the same difficulty as you, in reverse.

I have walked around Hornepayne and talked with individuals. I have sat down at lunch with them and walked along the rails with them all through those districts. I have ploughed along in mud just for the satisfaction of seeing what it felt like. It is not comfortable, I know; but I did it.

I have talked with these men, and what do I find? I have asked a fellow, "How do you like the diesels as compared with the old steamer?" The answer was, "Goodness, sir; I ate smoke for 30 years, and I am very glad I do not have to do it anymore. It is the best thing that ever happened". In the western region, the roadmasters, men who have spent their lives building the railway, have said, "Well, sir, we have a railroad. Ten years ago we had mud squishing out through the tires; but today we have a railroad".

They are proud of the fact they are building a railway. It is ballasted, tied; it has 100 pound rail, widened cuts, and everything else. It is a railway!

There are two or three kinds of morale. There is the morale of the men who cannot help but be affected if they are going to have a change. Then, take the president: he cannot help but be affected when he looks at a \$51 million deficit. Believe me, it hurts my morale as well. But there are other kinds of morale. There is the pride of accomplishment; and certainly the pride of accomplishment in the C.N.R., as an organization, is pretty high.

Some hon. members: Hear, hear.

Mr. FISHER: Have you any suggestions that would improve the specific situations of these particular communities in so far as their understanding of the C.N.R.'s problem is concerned?

Mr. GORDON: I think this general matter of communities is always open to improvement. I do not say we have done a perfect job. We have tried. If you have any other instances where you feel an injustice has been done, I would be happy to hear from you. I like to know about these things.

The reason I made the earlier statement about the labour organizations is this. The best way for management and labour to get along together is to leave them alone, in terms of the official dealings with the properly appointed labour organizer who has been appointed by the men for the purpose of representing them.

Inevitably, when third parties come in—and I do not say this offensively; I mean it factually—and begin to be recognized, or endeavour to be recognized as representatives, in relations with management, the thing just gets too fouled up; there is no question about it. If it goes through the regular channels, we both know what we are doing.

Mr. FISHER: In effect, what you are saying is that M.P.'s should keep their noses out of the matters such as this?

Mr. GORDON: No, I am not saying that exactly; but I am saying the ordinary relationships with management are better arranged through the machinery that is set up for the purpose. Local M.P.'s can perform a valuable service in keeping us informed. If you see specific things in your district that are not as they should be, certainly I would like to hear about them. There will be cases when we will be wrong. I do not claim perfection. But I do think our standard of performance in this respect is pretty good.

I am not talking from a prejudiced view of the C.N.R., I am talking with some knowledge of other industries and the sort of thing they do. I have some knowledge of the United States railways and what they do and, believe me, the C.N.R. is a much more considerate employer than any one of those.

We have a very generous pension fund; we have provisions for rehabilitation of men; we have committees sitting on that all the time. I am just saying, in a general way, that in my considered judgment, the C.N.R. is the most considerate employer of labour in Canada. And I would like to debate that with some of these people you mentioned who are making these extravagant resolutions.

I suggest, Mr. Fisher, that that resolution which you read is damned entirely by the language it uses.

Mr. FISHER: I myself was not enchanted with it.

Mr. GORDON: Thank you.

The CHAIRMAN: Nobody else seemed to have been either.

Mr. DRYSDALE: I am perhaps a little different to Mr. Fisher. I am a little bit nosy. I would be interested to know how your vice-presidents have been appointed and how many have been appointed in the last ten years.

Mr. GORDON: Mostly they have been appointed by merit. They have come up through the organization. In some instances we have brought members in from outside the organization because of special qualifications.

Mr. DRYSDALE: How many have been brought in from outside?

Mr. GORDON: Let us look at the report and I will run over it now with you. Take the page in the front of the report.

The first is Donald Gordon, who came in from outside the railway—and you have heard of that—in January, 1950, a date which is engraved in my heart, let me tell you.

Mr. N. J. MacMillan is a C.N.R. employee who came up through the legal department and is now our executive vice-president.

Mr. S. F. Dingle has made a long career of railroading and is now the vice-president in charge of operations.

Mr. M. A. Metcalf has been a member of the Canadian National Railways since boyhood and is now vice-president of our traffic department.

Mr. E. A. Bromley is vice-president of purchases and stores and has also made a life-time career of railroading.

Dr. O. M. Solandt has been brought in from outside. I am very glad we have been able to persuade him to come in. He is vice-president in charge of Research and Development. He came in because we are embarked on many scientific and research jobs for which he is particularly well qualified. We are, indeed, happy to have him.

Mr. W. T. Wilson is vice-president of personnel. He came in shortly after I did at my invitation to assist in organizing the personnel department, a department which was not then in existence. When I entered the Railway in 1950 we had nothing which might be called a modern staff there and therefore this is a brand new department. Mr. Wilson came in as an assistant around 1950 and is now vice-president of that department.

Mr. H. C. Friel also came up through the legal department and has had a long term in that department. He is vice-president in charge of law.

Mr. D. I. Grant is also a life-time employee of the railway. He is vice-president of associated services, which do not report directly through any other vice-president. We have an organizational procedure, where every item of business in the railway reports through a vice-president to me. As much as possible direct contact is kept away from me, which is not always successful.

Mr. R. H. Tarr is secretary of the board. He came in around 1952 as assistant secretary when the foreign exchange control board wound up. He is there because of special qualifications in legal and secretarial work.

Mr. J. L. Toole came in in 1954. There was a special situation in his case. Before Mr. Toole we had Mr. R. D. Armstrong who resigned the other day to become vice-president of Chrysler Corporation. I did not explore his reasons, but I am sure they were able to pay him considerably more than the limited salary which the C.N.R. offers. Mr. Toole is now the vice-president of accounting and finance. He reminds me he works for the love of it. Again we had a situation in our Accounting and Finance department when I entered the railway in 1950. At that time practically all of the top-ranking men in the accounting and finance department were due to reach retirement age all about the same time. The first half dozen were all within a matter of a year from retirement. We had a very serious problem in that department.

In addition, we looked around for special skills, having in mind the advent of new processes and mechanization of accounting generally. That is a very highly skilled occupation and we had no skill of that kind in the railway. We have been adding to our staff a limited number of what might be called specialists in that particular field and wherever employees could be retrained, they have been retrained.

Mr. W. H. Kyle is vice-president of the central region and is a life-long member of the C.N.R.

Mr. D. V. Gonder is vice-president of the Atlantic region and is also a life-long member of the C.N.R.

Mr. J. R. McMillan is vice-president of the western region and is a life-long member of the C.N.R.

Mr. W. R. Wright is director of public relations. He joined us in the course of the last five years. Again, as Mr. Fisher has been pointing out, the railway does not necessarily produce good public relations. Therefore, we thought we would go outside in that department.

Dr. K. E. Dowd has also a long record of employment in the C.N.R. He is the chief medical officer.

Mr. DRYSDALE: Thank you. As you probably have gathered, I was interested in this from the morale standpoint because there have been certain allegations made in this regard. I am very glad to have that cleared up.

May I, Mr. Chairman, follow on in respect of another aspect. I have read this very excellent magazine.

Mr. GORDON: Give Mr. W. R. Wright a credit on that.

Mr. DRYSDALE: I was quite interested in the January issue under the heading, "The President Reports on the C.N.R. Organization Plan Under Study." In that particular report you mentioned that the organizational structure which was adopted goes back to 1923 following the traditional pattern for railways. Could you briefly outline, if it is possible, what you say is the traditional form of organization, because in the article you proceed to make certain suggestions.

Mr. GORDON: All these things really are the reason I am still with the C.N.R. I am trying to get them worked out and I feel it is a duty. The genesis of this stems back to when the C.N.R. was organized in 1923. At that

time, Sir Henry Thornton took over. He had three problems. He solved the organizational problem by patterning the organization on the Pennsylvania railway. There was also the problem of amalgamation in bringing together the various railways. Sir Henry Thornton did not finish the job from the standpoint of organization. He left the railway before his plans were completed. The organization has remained unchanged.

Mr. DRYSDALE: Could I just catch you. Is the Pennsylvania railway pattern decentralization?

Mr. GORDON: Two years ago the Pennsylvania railway tackled reorganization along somewhat the same lines we are exploring. I am not satisfied they are right, but they did try to tackle the problem from the standpoint of getting away from a centralized organization into a decentralized organization, which would try to combine the operating, traffic and other departments in the form of local areas.

We are examining our organizational structure on this assumption;—since 1923 there have been so many technological changes, so much improvement in communication, and so many other refinements in addition to heavy capital expenditures, it would seem unlikely that the organization which was right in 1923 is right in 1959. We are very carefully exploring all these features.

We have made no decision to advance until we know the result of our explorations which will determine what would best fit in Canada. The Pennsylvania railway and the New York Central went through a form of reorganization and they went completely different ways. The Pennsylvania went to decentralization and the New York Central seemed to become more centralized. I am not satisfied that decentralization is necessarily the whole answer. There is a form of decentralization which can take place and it is gradually taking place by amendments in our supervisory requirements. I am afraid it will be some time before we can determine what is the best form of organization.

Mr. DRYSDALE: The difficulty I had with the article is that you mentioned that you had a consultant firm to clarify departmental responsibilities and authority at headquarters. Then you pointed out you thought it was obvious that the solution of our organization problems revolves to an important extent around the question of decentralization of authority and responsibility.

Mr. GORDON: Yes.

Mr. DRYSDALE: Further down you say:

I have become convinced that the organization structure of the system should be decentralized to a considerable extent on a geographical—as distinct from a departmental—basis. This means that regional offices should become much more autonomous and self-contained. . . .

Mr. GORDON: Yes.

Mr. DRYSDALE: Then you set out five detailed studies and at the conclusion you say:

In every case these studies will be directed by an official of the department or departments concerned.

Then a little further on you say:

I expect it will be desirable to obtain assistance in connection with some of these studies from the outside firm of consultants. . . .

The difficulty I have is in connection with your method of approach. First of all, I wonder as a matter of curiosity who the firm of consultants are, and would not they be capable of doing the over-all planning of all the departments. It seems to me rather difficult if you say to a man who is head of his own department: reorganize your department.

Mr. GORDON: No. But that is an excellent point. You are experiencing the same thoughts as I did myself. In the C.N.R. the job of looking at reorganization is too big for any one firm of consultants to tackle. All they can do is become advisers. If we were to ask a firm of consultants to become responsible for the reorganizational work necessary, and all it entails, they could not do anything else; the task is too big. Instead we worked out a means whereby the consultants, in a sense, directed our efforts by advising what studies could best be made. We found very early that these studies would have to be made by practical men who understood the operation of the railroad. Any outside consultant we could think of, other than the one who assisted the Pennsylvania railroad—and we did not want to bring them in—would first have to be thoroughly acquainted with railroading. Railroading has to be in your bones before you can understand all the processes that lead to the type of organization we have in mind.

We had the vice president of each department select the man thought to have best knowledge of his department. These men have been divorced from all other duties and have been asked to evolve feasible organizational structures. We have tried out different organizations and procedures in various areas. We are trying to eliminate the “bugs”.

Mr. DRYSDALE: There will be no change in the total number of persons employed so far as needs are concerned. This is not a combination of a reorganization and efficiency survey.

Mr. GORDON: No, it is not meant to be an “efficiency” survey. The purpose is to try to evolve the most effective type of organization. My own views, from my own experience, is that there is far too great a degree of centralization in the C.N.R. It will tell you one of the reasons for this. One of the reasons is this committee. The president of the C.N.R. is obliged to arrive here and to give every detail about the railway. I am telling you that it is bad organization. In the first place no one man should know all the details about a railway and if he does, he has not a good organization.

Mr. DRYSDALE: I wondered about that. I was wondering whether we could have the advantage of hearing from some of the others in regard to some of these questions.

Mr. GORDON: I think it might be possible when we get it set up. At the present time it is not the kind of organization that lends itself to this. Everything comes back to headquarters. I am trying to define the structure you may see, but I do so with some hesitation because I notice phrases like “area management” have already been picked up. We have not decided on areas at all, but let us assume that concept. It may be possible to divide this country into areas and then into regions. You might have four or five men who would be fully responsible. One would be able to deal with everything in western Canada; another one would deal with everything in Ontario, and so on, and I would sit on the sidelines and chuckle!

Mr. DRYSDALE: The system would be somewhat the same as that which the C.P.R. has at present.

Mr. GORDON: I do not know. I have tried to understand the C.P.R. system and I think they are somewhere in between. I think they are more decentralized than we are.

Mr. DRYSDALE: I have one more question. Page 39 covers your 25-year synoptical history of the Canadian National Railways. From 1950, on, there is a considerable fluctuation in the average number of employees. For example, comparing 1951 with 1950 there is an increase of 8,261; comparing 1952 in relation to 1951 the increase is 6,689, and comparing 1957 in relation to 1956,

the figure is minus 2,019 and comparing 1958 with 1957 the figure is minus 11,534. What are the average number of employees? What type of computation do you use?

Mr. GORDON: It is a mid-month statistical count based on our payroll. I could not give you a count for each day. We take it on the fifteenth of each month.

Mr. DRYSDALE: And average it over the twelve months?

Mr. GORDON: Yes, we take the twelve months total and average it.

Mr. CREAGHAN: Is that the same formula you have used for 25 years?

Mr. GORDON: Yes.

Mr. DRYSDALE: Is there any explanation for this fluctuation?

Mr. GORDON: Yes, one major reason is the advent of the forty-hour week. It came in 1951 and the results are shown in there. There was a very large rise in the number of employees in relation to traffic. The fluctuation in the traffic also has a definite effect on the number of employees. Then came dieselization. It got going in 1952 and has had a definite impact on it. Of course, in the railroad business, when you are trying to compare any figures you have to consider the pattern of traffic, not only the fluctuation, but the pattern or "mix" of traffic. One year you may have a heavy wheat movement and the next year we may not. You also experience a difference in regard to the seasons.

Mr. DRYSDALE: The increase from 1934 to 1950 has been relatively stable; yet in comparing the figures of 1955 with 1954 there is a decrease of 2,807. There is then an increase in 1956. From 1956 to 1957 there was a decrease of 2,019, and last year there was a drop of 11,534 compared with the year before.

Mr. GORDON: You have to take it year by year in order to get the answers. However, I have already given the answers. It was largely due to traffic and technological changes. But the factor of the forty-hour week has distorted the figures in the period 1952-53-54 because it was not a sudden increase; it was an adjustment increase. We had to educate ourselves to a forty-hour week.

Mr. DRYSDALE: Is the 1958 decrease attributable to dieselization?

Mr. GORDON: I gave the figures a moment ago. On the whole, taking the figures for the Canadian lines, which are most readily analyzable, the reduction was 10,600. Thirty-eight hundred was attributable to a decline in traffic, 4,000 by technological change, largely dieselization, 1,400 by improved supervision, organization, and work methods. Incidentally, I might point out that Dr. Solandt is beginning to make headway in work studies and methods of operation.

Then 1,400 which are not specifically identified, but they represent, I would say, a more rigorous staff control; we have been cutting down on the actual number of personnel required to operate this railway in light of our very serious deficit.

Mr. CHOWN: Following up a question asked by Mr. Drysdale. You mentioned you brought in outside consultants for the purpose of reorganization only.

I wonder if you have at any time considered in the past, or for the future, bringing in outside consultants for the purpose of eliminating inefficiency or for the purpose of improving on your general business and accounting methods?

Mr. GORDON: We feel our research and development department under Dr. Solandt is aimed in the general direction. There are occasions when he will bring in outside consultants to do a specific job, when he feels they can be of assistance.

One good example is the yard in Toronto; we brought in the firm of DeLeuw, Cather & Company as outside consultants to check our own conclusions. Therefore we have that as a general policy, where we may feel it will be of assistance.

The CHAIRMAN: Are there any further questions?

Mr. FISHER: I would like to ask Mr. Dingle if he can explain, more or less in capsule form, the shifts that have taken place and which are concentrating control of the northern divisions at Capreol.

Mr. DINGLE: That is another test area referred to by Mr. Gordon. We are amalgamating divisions on a test basis.

With the change of operation brought about by dieselization, specific engine runs, and other improvements in operation, we find that some of our divisions are far too small for existing management. We find that we can manage much better and more economically because of the conditions within the enlarged area.

Mr. FISHER: What about the trend of the shifts towards using train crews for more than one subdivision?

The CHAIRMAN: The run-through.

Mr. DINGLE: That is another example of an improvement in operation.

Mr. FISHER: Is that an indication of what you are doing out of Toronto to Capreol,—that is, coming right across the country?

Mr. DINGLE: It may be. At the present time it is not general by any means. We have done it on passenger trains for years but not on freight trains until lately. That means that the engine crews and cabooses go through.

Mr. FISHER: When this was introduced did you negotiate with the brotherhood in this particular case?

Mr. DINGLE: Yes, and we did the same thing between Montreal and Toronto.

Mr. FISHER: Have you carried on any negotiations with the front-end brotherhood?

Mr. DINGLE: All organizations have been consulted, Mr. Fisher.

Mr. FISHER: Have you any plans now, or in the immediate future, to approach not only end crews but also front-end crews on the run?

Mr. DINGLE: No, that has not been done. I do not know if there is anything in play at the present time to effect that. It may come.

Mr. GORDON: I know you are interested in this, Mr. Fisher, and it is along the same line. And that is centralized traffic control.

In our budget this year we have an item for the expansion of our centralized traffic control; there are sub-divisions that are due to be put under centralized traffic control. The operators' positions will be abolished or will be unnecessary, and the number displayed vary from sub-division to sub-division. However, when we eliminate operators in those sub-divisions we are to add signal maintenance forces and supervisory forces that will offset, I would say, roughly 50 per cent of the operators' positions that are discontinued.

At the present time we are short of operators, so that in the affected sub-divisions it is a question of timing. We expect we will absorb the operators made surplus, by transfer to other divisions, if they are willing to go. That is the sort of thing we will try to work out. Apropos of Mr. Dingle's remarks, it is just as well to realize when we talk about changes in divisions that we are now seeing the impact of dieselization technique on the supervisory forces.

We have been reproached in the past because it has been said that dieselization always seemed to touch the working man. That is not so; but it took time before the supervisory forces were affected because they were required until the end of the program. The effect of complete dieselization had to be seen before we could decide what revision of supervisory staff would be possible.

Mr. FISHER: Have you any figures that indicate this?

Mr. GORDON: Not yet, because we are just starting it. It is not possible to deal with your supervisory staff until you have completely dieselized the particular division. Do you follow that?

Mr. FISHER: Yes.

Mr. GORDON: As long as we had a mixture of steam and diesel we could not get the supervision sorted out, because we had to retain an organization which looked after both processes. But with complete dieselization we can concentrate on the problem of supervisory requirements.

Mr. FISHER: In other words, you have the example of the movement in connection with Hornepayne.

Mr. GORDON: That is an example, and we can only do that when we are through with the N.O.D.

Mr. FISHER: What is the dispatchers' position with regard to the change? I am thinking of the Capreol case.

Mr. GORDON: The dispatcher is re-trained, and he is the fellow concerned with the C.T.C.

Mr. FISHER: There is no general likelihood the dispatchers are going to become redundant?

Mr. GORDON: Not if they are capable of picking up the operation of C.T.C.—and it is a relatively simple operation. Therefore, there is no reason at all why he should be made redundant. We have not found an instance where we have not been able to train a dispatcher in a very short time on the C.T.C.

The CHAIRMAN: Are there any further questions?

Mr. FISHER: I cannot stay away from what is the key question in so far as the railroads I have encountered, are concerned; and that is the policy or plan in so far as the train crews are concerned when you reach the stage of complete dieselization and complete centralization of traffic control on different sections of the line. What about the potential reduction in the size of the train crew force at that time?

Mr. GORDON: We have that matter in play, and we did make an extensive study at the time of the firemen's case. There has been an examination of what might be called the ideal crew on various types of trains. We have that very much in mind.

Changes in that respect may depend on other types of technological change, there are other things which will improve our operations such as radio telephone in the cabs, and things of that kind.

Mind you, if I were to go further I might predict the day when trains could run without crews, that is, there would be complete automation on certain types of trains.

Mr. FISHER: That is a long way off.

Mr. GORDON: There is an experiment now going on in a northern Quebec line; but with specific types of traffic it would not be done.

Mr. FISHER: This is a question on car shops and car repair back shops. You have been centralizing that. I do not know whether "centralization" is the right word to use there, but there have been many shifts in that particular regard. Are most of those completed?

Mr. GORDON: Yes, I have a statement here which shows that fairly well.

As we now stand there are only ten back shops for car repairs. They do repairs requiring over 50 man-hours of work. Generally speaking, the other points where work is done on cars are repair tracks or coach yards.

The back shops are set up so that each one has certain specialities, although any car could be repaired at any back shop.

For instance, refrigerator car repairs on the western region are concentrated at Transcona. The shops at St. John's, Calder and Port Mann are much smaller than the other Canadian back shops.

The car repair back shops now in existence are as follows: Atlantic region, Moncton and St. John's Nfld.; Central region, Montreal and London Western region, Transcona, Fort Rouge, Calder and Port Mann; the Grand Trunk Western, Port Huron; and the C.V., St. Albans. Those are the major car repairs shops at present.

Now the car repair points other than back shops are as follows: There are 14 of them in the Atlantic region; 25 on the Central region, as well as 16 smaller points which are for inspection and the servicing of cars; and there are 33 on the Western region plus three smaller points. If you would like me to detail them, I would be glad to put them on the record.

Mr. FISHER: No, I would like to know what changes are in prospect in the immediate future in this regard. Of course my interest is in the Central and Western region.

Mr. GORDON: We cannot be precise about it yet because we have to work out the effect, for example, of steel wheels. The use of steel wheels will reduce the maintenance work at the repair points, but we need experience in that respect before we can be precise.

All mechanization and methods of doing work other than by hand tools will have the inevitable effect of a down turn in the number of employees, but the employees who are then left are likely to be higher paid. We are away past the day when workmen will tolerate working under conditions where they do not have the best of equipment. They will not work any more unless they have the very last word in equipment.

The effect of all these changes is that the men who survive in the service will be very skilled with the machines and will earn more money. They will be higher paid, but we will reduce the number of individuals that will be in the railway service.

Mr. FISHER: Will this process, in this particular field, have an effect on the traditional divisional points?

Mr. GORDON: Yes, I would say so. That would be a generalization.

Mr. FISHER: Bad order cars would tend not to be repaired at divisional points but rather to be shipped through to more central points?

Mr. GORDON: I would not want to accept that exactly. It would depend on the area. As Mr. Dingle reminds me, when we are faced with cars that require running repairs, we have to do them as expeditiously as possible; so we will have running repair points all across the system which will continue to function, and we shall learn from experience in that respect how many we need to have.

It will also have a great deal to do with the traffic. Our policy is that when a car is bad ordered on the road, we get rid of it as fast as we can so as not to hold up the train. We get it to the nearest point for repairs. If it requires a type of repair that cannot be given at such a point, then we will get it to the nearest shop. Our policy is to get it out of the way as soon as possible.

Mr. FISHER: Will most of your changes take place among your repairmen and in connection with your repair force?

Mr. GORDON: I think I have a figure on maintenance of way. Did I not give it to you before?

Mr. FISHER: No.

Mr. GORDON: I have a comparison table here, Mr. Fisher, that shows in general classifications the employment levels over the last five years.

Mr. FISHER: Could you table that?

Mr. GORDON: I will be glad to table that. I will give you an example with maintenance of way and structures. In 1954 we were employing 20,376 and in 1958 it was 20,322. There is very little difference in that particular item but this is a table that shows a breakdown into general, equipment, transportation (train), transportation (non-train), and other classifications, as prescribed by D.B.S. If that would be of use to you I will table the figures.

(See appendix.)

Mr. FISHER: There has been a switch away from the stationary maintenance of way into moving maintenance with more advanced equipment, has there not, and they move around the system and you can bring the area up to a high level for a number of years?

Mr. GORDON: Yes. I had a note of that very thing.

The CHAIRMAN: Well, gentlemen, we are not making very much progress and it is a quarter to six; quitting time. So we will meet again at eight o'clock.

Mr. BROOME: Would it not save time if a lot of this information was just put on to the record?

The CHAIRMAN: I do not think we need a lot of detail. We are not trying, as I said before, to learn how to run a railroad: we are trying to learn what has been done during the year.

Mr. FISHER: I would like to make it clear, Mr. Chairman, the Canadian National Railways is the most important employer in my whole constituency and the related constituencies and I am not asking any special favours; but if one wants information this is the place to have the right to ask it.

The CHAIRMAN: That is right, but we have other members here who have very important divisions.

Mr. FISHER: If they want to ask questions, come on in. This idea of being bulldozed through these particular annual reports—

The CHAIRMAN: You are not being bulldozed. You spent nearly a half hour earlier, and we have other members of the committee besides yourself.

Mr. CHEVRIER: I think, Mr. Chairman, if we had proceeded in the usual way in which we did last year we would probably be much farther advanced and that was reading out the report by the president, and then going back to discuss each item. We have been quite a considerable time today, and we have not advanced nearly as far as we did last year. I think perhaps it is due to that in part.

Mr. DRYSDALE: Maybe we went too fast last year.

Mr. CHEVRIER: Well, that is for the committee to decide.

Mr. DRYSDALE: I think, Mr. Chairman, to avoid this kind of argument we should adjourn now.

Mr. CHEVRIER: Yes.

EVENING MEETING

TUESDAY, May 5, 1959.

The CHAIRMAN: Order, gentlemen. I see a quorum. Now we can proceed. We are on operating expenses.

Mr. CHEVRIER: Before the minister leaves, there are one or two things we were discussing earlier. May I be allowed to ask a question or two? I inquired about a study which I hoped was being undertaken concerning transportation facilities in the Atlantic provinces. Mr. Gordon said his understanding was that there was a committee under the jurisdiction of the Department of Transport. I wonder if the minister would care to elaborate on what has been done by that committee towards the betterment of transportation facilities in the maritime provinces?

Mr. GEORGE HEES (*Minister of Transport*): They have undertaken a study. It is a pretty big one. They are still very much at it. The study has not been completed yet.

Mr. CHEVRIER: Could you tell us who the members of the committee are?

Mr. HEES: Not offhand, no.

Mr. CHEVRIER: The committee has been in existence now for about two years. I think we had that at the hearings last year. Can you not give us an idea?

Mr. HEES: George Scott is a member of the committee. I was speaking to him the other day. I spoke about it in the committee last week when I said that Mr. Baldwin of the Department of Transport was a member, and so is George Scott.

Mr. CHEVRIER: That was the inter-departmental committee, and that is another matter.

Mr. HEES: No, it is the same committee.

Mr. FISHER: Was it set up by order in council?

Mr. HEES: I do not think so, no.

Mr. CHEVRIER: Could you give us some idea of what proposals or representations have been submitted, and how far these studies have gone?

Mr. HEES: They have not submitted any proposals to me, not yet so far.

Mr. CHEVRIER: Are meetings being held from time to time?

Mr. HEES: Yes.

Mr. FISHER: Is it the same committee that would be handling the Pine Point railway problem?

Mr. HEES: No.

Mr. CHEVRIER: No. This is purely for the Atlantic provinces. I hope you will do better tonight when you appear on Press Conference than you have done on this one.

Mr. BROOME: In regard to the two new ships being built for Newfoundland, I understand that one of the existing ships is named Bonavista, and I wonder if one of the new ones is to be named Twillingate?

Mr. CHEVRIER: That is government policy to be announced at a later date.

The CHAIRMAN: You are on operating expenses. Try to stick to it. Do not go too far off. I am not concerned about the minister, but I am concerned about getting this committee through.

Mr. FISHER: I wish you would go along with him.

Mr. CHEVRIER: Perhaps you would like the president to go along too.

The CHAIRMAN: I have a good substitute here in the person of Mr. Tasse, the vice chairman of this committee. If I have to leave he can carry on.

Mr. FISHER: I wanted to continue with what we were talking about before adjournment. You were going to file these figures, Mr. Gordon.

Mr. GORDON: You were asking me about the general approach to our maintenance of way, and what has been accomplished in that connection. I was about to say in closing that we have embarked on quite a number of changes in our method of approach to maintenance of way. These methods are designed to bring in what might be called a blitz campaign. We have a program of cycling maintenance of way in particular areas, doing heavy work with the idea that it will last for four or five years. That is one of the things we have done. That is particularly suitable for use with mechanized tools which cost a good deal of money. They can be adapted to do this kind of program much better than could the hand tool proposition.

Another feature is that our B and B force is not permanently assigned to a particular subdivision. We have arranged that these gangs can be moved from one subdivision to another in accordance with the work required. So they may not be working in the same part of a division on a particular date as compared with a previous year. Therefore that invalidates comparisons of the working force on a given date with respect to a given subdivision.

Mr. FISHER: Is it possible for maintenance of way people to be transferred? Are they being transferred to this other type of gang?

Mr. GORDON: They are moved from one part to another depending on the work that is available for them.

Mr. FISHER: How long is the season in which these gangs work? Is there any attempt to spread it out so that these gangs may work in the fall and the winter?

Mr. GORDON: We push the work to a maximum having regard to the weather. It varies according to the time of year. We try to step up the program with the idea of completing it before the weather turns bad. We usually find that we are pushing it towards the end of a project as much as we can. But much depends on the type of work and the weather conditions.

Mr. FISHER: Some of the American roads are trying to get rock ballasting done in the winter. Do you find that it is possible here?

Mr. GORDON: There is very little of it in Canada because of Canadian climatic conditions. In an effort to support the general attitude towards the employment situation we have "maximized" any work in the wintertime that could be done immediately. If we can do it on that basis, without adding materially to the cost, we will stretch it through into the winter period.

Mr. FISHER: I have one other question about the rock gangs. At the present time in the western region this is being done by contract.

Mr. GORDON: Yes. We find that for certain types of rock scaling we cannot get our regular forces to do it. It is dangerous work and highly specialized. Our regular work forces prefer to miss it. We therefore employ men under special contract, particularly the Welch gang. These gangs are organized for us, and these men seem to have a particular aptitude for this kind of very dangerous work, with specialized skills for work which our own forces prefer to avoid if possible.

Mr. FISHER: You have no plans to change that?

Mr. GORDON: We have no plans to change it, because it is not open for us to change. We just have to get the people who will do it. I want to make it clear that this arrangement that we are making for this specialized work is done with the knowledge of our regular union forces.

Mr. FISHER: That is a point I wanted to bring out. I understand that one of the unions involved is making an attempt to organize the Welch gang.

Mr. GORDON: I am glad you have warned me.

Mr. FISHER: I understand that one of the problems involved here is that there have been occasions in the past when the union has gone in and organized gangs like that. This enables the union to bring the gang in completely as railway employees in order to take advantage of fringe benefits which are normally associated with railway employees.

Mr. GORDON: That has happened to our extra gangs. That is what we went through with our extra gangs a few years ago. The extra gangs, so-called, were not unionized. We, as management, never felt they should be, and we said so quite frankly. However, the unions did succeed in organizing them, and they are now members of the union in that respect. But that is quite different from the specialized Welch gangs. They are different, quite outside the union, and so far they have not been organized.

Mr. CHEVRIER: In the absence of the minister earlier today I asked the president about the position of the causeway from the mainland to Prince Edward Island, and he said that the Canadian National Railways had little or nothing to do with it. Can you bring us up to date as to what has been done since the last meeting of this committee, having to do with studies concerning the causeway?

Mr. HEES: The Department of Public Works is studying that problem. I am just as anxious as you are to learn what the result of that study will be. I inquired about it as recently as a week ago but they still have not completed their study. We are anxious to know whether they can build a causeway, because it would have a great relationship on the kind of vessel which we would or would not provide in the future. But so far the Department of Public Works has not yet completed its study.

Mr. CHEVRIER: You remember it was stated than an engineering estimate of \$200,000 was being set aside for that purpose. That money is not in the estimates, I know. But what is being done with reference to the engineering survey concerning the causeway? Is it under way?

Mr. HEES: The Department of Public Works is conducting a survey. They are doing the whole thing.

Mr. CHEVRIER: Then in the meantime, what about additional services between the mainland and Prince Edward Island.

Mr. HEES: Well, this summer we are going to have three ships going to Prince Edward Island, the *Abegweit* the *Scotia* and *Scotia II*.

Mr. CHEVRIER: Will there be any improvement on the service?

Mr. HEES: We have done a considerable amount of planking on the *Scotia II*.

Mr. CHEVRIER: There is really nothing you have to report on the causeway since the meeting last year?

Mr. HEES: That is right.

Mr. GORDON: Except, Mr. Minister, you will recall that arrangements have been made for the *Scotia* to be planked, and the effect of it is that its capacity will be increased.

Mr. CHEVRIER: Has anything been done with reference to Chignecto and the construction of a canal on the isthmus of Chignecto?

Mr. HEES: This is a good warm up for my press conference tonight. I would say yes. We are studying at the present time an engineering report, a survey, a study made initially by the Foundation Engineering Limited who have done on their own a study of the engineering requirements and the engineering possibilities of it.

Mr. CHEVRIER: When was that done?

Mr. HEES: All this has been done during the last year.

Mr. CHEVRIER: Well, has the department set up a board of engineers to study the economics of the Chignecto causeway?

Mr. HEES: Yes we have. We are trying to find out just what traffic would use the canal if such a canal were built.

Mr. CHEVRIER: Well, you say yes you have. Who has been appointed to make the study?

Mr. HEES: George Scott.

Mr. CHEVRIER: He is an official of the department?

Mr. HEES: Yes, and we are trying to find out from the members for New Brunswick and the maritimes, who are very interested in this project, to get some definite information, not just vague generalities but some definite promises and assurances on shipping that would use such a canal if one were built.

Mr. CHEVRIER: Do you not think that the best way to get that information is through a board of engineers or an engineer?

Mr. HEES: Well, I do not think a board of engineers is going to be able to tell us very much of what shipping would use the canal. As far as I know the best way to find that out is to go around to the people and the shipping companies which might ship through that canal and find out if they would or would not be interested.

Mr. CHEVRIER: Would not the board of engineers tell you what the cost and the economics would be?

Mr. MCPHILLIPS: Mr. Chairman, surely this is quite beyond the scope of this committee's proper functioning?

Mr. CHEVRIER: Of course it is not.

Mr. HEES: I am perfectly willing to answer.

Mr. CHEVRIER: Mr. Chairman, let us settle this question at once, because we have been discussing transportation facilities all day in some form or another between the mainland and Prince Edward Island, and this is in the Atlantic provinces.

The CHAIRMAN: It is operating expenses we are dealing with now.

Mr. CHEVRIER: But this is an operating expense. If you set up a board of engineers it is going to cost some money, and it has been stated in the House of Commons it will cost about \$200,000 to make an economic survey.

The CHAIRMAN: It is not connected with the Canadian National Railways, though.

Mr. CHEVRIER: Of course it is. The causeway to Prince Edward Island is connected with the Canadian National Railways if the Canadian National decide to put a railway across it.

The CHAIRMAN: If they decide to put a railway across it, yes.

Mr. CHEVRIER: Then that is in order, I submit.

The CHAIRMAN: In the meantime it is not.

Mr. CHEVRIER: I submit it is. Do you want to stop me from asking these questions?

The CHAIRMAN: Oh, no. I can give you plenty of leeway. I like to see you with leeway.

Mr. CHEVRIER: I think if you are going to proceed in that fashion—

Mr. HEES: I am perfectly willing to answer the question.

Mr. SMITH (*Simcoe North*): I do not think the committee should be black-mailed with the threat that Mr. Chevrier is being stopped from asking questions. Are they relevant to what we are doing, or are they not, that is the point?

Mr. CHEVRIER: Nobody is trying to blackmail anybody else, let us get that clear. If you are using that expression in an attempt to stop me from asking questions you are not going to get very far. I submit, with deference, that I have a right to ask the questions and particularly when the minister offers to answer them I do not know why I should be interrupted. Certainly I have not taken the time of the committee unduly and what I was asking was whether a board of engineers was being considered for the purpose of going into the economics of the Chignecto causeway.

Mr. HEES: We are having the engineering study that has been carried out by the Foundation Engineering Limited, having that studied by the hydraulic engineers on the St. Lawrence seaway, and we believe they are about the most able engineers you could find, to see if in their opinion the principle on which the Foundation Engineering studies have been made, that is, making the canal a one-lock canal instead of the previous concept of a two-lock canal, is sound and feasible.

Mr. CHEVRIER: Have you any estimate of costs on it?

Mr. HEES: The estimate is somewhere between \$80 million and \$100 million.

The CHAIRMAN: Again, may I interrupt. I think I have given enough leeway on these issues. Is the Chignecto canal connected with the C.N.R.?

Mr. CHEVRIER: Indirectly.

The CHAIRMAN: It is a rough and ready question for the minister. We are questioning the C.N.R. on the report of the C.N.R. I am not trying to be strict, but you might as well ask him what he is going to say on television tonight, as ask him this.

I am responsible for keeping this on the rails of procedure and dealing with these different items, and even if the minister is generous enough to answer, I am not generous enough to allow questions that are not relevant to the issues that should properly be considered.

Mr. CHEVRIER: I started the questioning because of the information that was lacking concerning the causeway. I think that was perfectly in order. Perhaps I was not in order with reference to the Chignecto canal. Now, does that satisfy you?

The CHAIRMAN: Fairly well.

Mr. FISHER: Mr. Chairman, may I come down to something that is concerned with operating expenses? Can you tell me how far down your executive hierarchy the ability, or right, to have an expense account is extended?

Mr. GORDON: It applies to anybody who has a legitimate reason to spend money on railway business. Anyone who is operating on railway business is allowed to put in an account for expenses incurred, which will be viewed by his superior officers and approved or otherwise.

Mr. FISHER: The reason I raise this is because the point has been made to me by an outsider that the C.N.R. has a great many more executives on the expense account than one other railroad. You can guess what it is. I just said I would ask the question and try to find out whether you had looked into it.

Mr. GORDON: When you talk about executives on expense accounts, there is no such thing. The way we operate is this. If any man—no matter who he is—is required by railway management to proceed here or there to do

something on railway business, and that involves him in expense in the way of hotel accounts or travelling charges of any kind, he is entitled to submit his expenses for approval. That applies to anybody.

Mr. FISHER: Do you have a figure of the total for the year?

Mr. GORDON: He would have to submit his out-of-pocket expenses, and they would be reviewed and approved, or otherwise, by his superior officer.

Mr. FISHER: Can you give us any indication of the amount and the number of people; or is that too involved for you?

Mr. GORDON: As a matter of fact, we present a general summary at each monthly board meeting on that very point. I could not give you the number of people involved, but I could give you the amount, if we have it. As a matter of procedure, at each meeting of the board of directors we produce for the record a minute which compares the total expense accounts—as you call it—and we review it. Then there is a short discussion on it to satisfy the board that it is within reason.

I have not got the figure with me. I thought I had it, but I have not. If you would like me to get it, I will get it for tomorrow morning.

Mr. FISHER: I would like to see it, especially if you have it for the last few years.

Mr. GORDON: We would be glad to do that. We have that available, I know; but I do not happen to have it here.

Mr. FISHER: Is it on this section, Mr. Chairman, that we should ask questions in connection with the pension?

Mr. GORDON: Yes, I suppose you could.

Mr. FISHER: Have you made any progress in that regard? There is a new C.N.R. plan booklet out.

Mr. GORDON: Yes.

Mr. FISHER: That is as a result of revisions. Have those revisions been generally well accepted?

Mr. GORDON: That was a revision in the sense that it grew out of the fact that we made a major revision to our pension fund in 1952. At that time we gave an opportunity to people in the service to take the option of transferring out of what we called Part I, which was a money annuity plan, and going into Part II. Part II gave them specified benefits which applied to their dependents as well. I mean, when they died, their dependents got a portion of the benefits.

A fair number of the people did not take advantage of that provision in 1952, and I think in part it was due to lack of information or lack of understanding. In 1958 we made a further revision of the plan, with the thought that, starting from January 1, 1959, our plan would become compulsory for new employees. Hitherto it had been a voluntary plan and that has caused a great deal of difficulty.

Therefore, we felt we should make a new stipulation for new entrants, that starting on January 1, 1959, they had to become contributors to the pension fund as a condition of employment. At the same time we decided it would be fair to give one final chance to those who had not taken advantage of the first offer in 1952, and they are now being given the privilege of changing their minds and deciding to come into the new Part II, which, I should say—without going into detail—has substantially better benefits than Part I.

That is being explained all across the system, and the last report I had on it was that it was being well received through the different organizations.

Mr. FISHER: You did not consider making it compulsory for people who were in your employ?

Mr. GORDON: We cannot do that.

Mr. FISHER: There is no way you can do that?

Mr. GORDON: No, I do not think we can. That would be taking arbitrary action, which was not a condition of employment at the time. We did not feel we should do that. They have this election chance now, and this will be final; they will either come in or stay out.

Mr. FISHER: This is the last chance?

Mr. GORDON: Yes; and that has been made very clear. And we are having the cooperation and assistance of union representatives in explaining the point to union groups.

Mr. FISHER: The C.P.R. made it compulsory did they not?

Mr. GORDON: They have had it compulsory since 1935 or 1936—round about that time.

Mr. CHEVRIER: Mr. Chairman, I wish to ask a question with regard to the basic pension. Have any changes been made in the basic pension of the C.N.R.?

Mr. GORDON: No.

Mr. CHEVRIER: Does that still remain at \$25?

Mr. GORDON: That is the maximum basic pension; but it may be less than that, depending on the length of service of the individual. The basic pension is still the same.

Mr. CHEVRIER: Have you the amount of pensioners under the basic pension?

Mr. GORDON: We certainly should have it, but I do not know if I could find it.

Mr. CHEVRIER: I know you used to get a lot of questions on it, and I am not bothering you with those. I would like to get the numbers and the amount of money paid to them, if you could give it to me.

Mr. GORDON: The number in receipt of only the basic pension of \$25 a month is 2,900.

Mr. CHEVRIER: And they get how much?

Mr. GORDON: They are in receipt of the basic pension of \$25 per month. There are only 161 under the 25.

The CHAIRMAN: Has anyone else any questions?

Mr. HORNER (*Jasper-Edson*): May I ask my question in respect of advertising under this section?

Mr. GORDON: We may as well deal with it.

Mr. HORNER (*Jasper-Edson*): I would like to know whether or not you have your own advertising department?

Mr. GORDON: Yes; we have our own public relations department which looks after the advertising details. It, however, employs agencies in respect of that.

If you will turn to page 31 of the report you will see the total amount of our advertising, which is \$1,955,000. It is under the heading "traffic". That is the global figure for our total advertising. That \$1,955,000 is broken down into newspapers, magazines, miscellaneous publications, radio and television, for a total of \$695,212 in Canada and \$650,313 in the United States, for a total of \$1,345,525. The balance between that and the \$1,955,000 covers all the general things such as time-tables, handbills, distribution folders, bulletins, displays cards, posters and so on.

The CHAIRMAN: Are there any further questions?

Mr. CARTER: I would like again to turn to the matter of pensions. Mr. Gordon just said that those who did not take advantage of the first opportunity to switch from Part I to Part II now have a second stab at it. I know that at the time of Confederation there was considerable confusion among the employees in Newfoundland. Could you give us a brief summary of the position there?

Mr. GORDON: I am sorry. I would need a special committee to deal with Newfoundland in respect of pensions. The Newfoundland situation, as you know, is terrifically complex because as part of the details of Confederation, the government took responsibility with regard to certain employees in respect of pensions. Flowing from those general provisions there have been all sorts of arrangements made whereby the cost of those pensions are a matter of government accounting. In the space of two hours I could not begin to give you the detail of it.

As I told you before, Mr. Carter, the only way you and I can understand each other is to have specific cases, and for you to tell me the particular problems involved and I will tell you the situation in respect of the individuals. I am sorry, but it is beyond me to clear up the complexity which has grown in respect of the Newfoundland situation.

Mr. CARTER: Can you tell me how many have not taken advantage of the second part?

Mr. GORDON: In Newfoundland?

Mr. CARTER: Yes.

Mr. GORDON: No; because it is right now in process. It is open until the end of this year. We are not driving them into it; it is voluntary. They have the opportunity of having it explained to them by the union representative. By the end of this year we expect to have the job complete.

Mr. CARTER: Can you say anything about the position of the local employees' association?

Mr. J. L. TOOLE (*Vice-President, Accounting & Finance, Canadian National Railways*): Is that the R.E.W.A.?

Mr. CARTER: Yes.

Mr. TOOLE: They have stopped issuing policies which you might term as health and welfare. They never have provided anything of which I am aware in the nature of a pension. They did provide a weekly indemnity coverage, but they are not issuing anything on that where it conflicts with our policies in respect of non-operating personnel. Consequently, they are still selling that type of coverage to the employees who are not getting a competitive benefit under a company-sponsored or negotiated scheme. Again, that is a general organization and is not strictly C.N.R. They have members who are C.P.R. employees and some who are employees on United States roads, and things of that nature.

Mr. GORDON: It is a completely independent organization and not the C.N.R.

Mr. CARTER: Did it clash with your company plan?

Mr. GORDON: They overlapped.

Mr. BROOME: In operating expenses under the heading "general", the actual expenses in 1958 went up rather considerably over 1957. I am wondering whether or not that meant reorganization? There must be some logic.

Mr. GORDON: Are you speaking of page 31?

Mr. BROOME: I am speaking generally. It is \$56,600,000 in 1958 and \$54,895,000 in 1957. All the other operating statements seem to have reduced because of low traffic.

Mr. GORDON: Yes. You notice the main item is a half a million dollar increase in the cost in pensions.

Mr. BROOME: That is one of the main items. There is a difference of almost \$2 million. There is a considerable item in clerks and attendants.

Mr. GORDON: You will notice the main item under the heading of "other expenses".

Mr. BROOME: That is right. In this heading of "general", you will find, is where we incorporate through the various figures the additional cost arriving out of the data processing we are putting in. That is the electronic development. In the early stages that will show an increase, but in the long run we expect a substantial reduction.

Mr. BROOME: Thank you.

Mr. FISHER: Was it the union or management which was the stronger moving force in getting a three-year agreement rather than a two-year agreement?

Mr. GORDON: Which one?

Mr. FISHER: The ones in paragraph 29. The railroad trainmen and locomotive engineers.

Mr. GORDON: I do not know. It was just one of those things we talked out in discussion. I would not like to claim credit for the management or the union. It was a product of collective bargaining. In order to gain a three-year agreement and a period of peace, we did negotiate a better bargain than we would have had with a one-year period. It was a product of collective bargaining. We weighed one thing against the other and made concessions in order to get the three-year period and they accepted it on that basis.

Mr. FISHER: In respect of paragraph 31, could you give us an indication of how that may affect your expenses?

Mr. GORDON: Yes. I do not want to say anything which will start up a case which has been settled. I am simply giving the facts and I am not speaking critically. However, the fact that we are carrying on the firemen on the diesel trains, which we alleged were unnecessary, will cost us about \$14 million in wages more than we think is necessary.

Mr. CREAGHAN: You mean for a year?

Mr. GORDON: Yes. It will be a declining factor over a period which we estimate as 15 to 20 years.

Mr. BROOME: \$14 million?

Mr. GORDON: \$14 million of wages to firemen who are carrying on under the agreement.

The CHAIRMAN: Which you do not need.

Mr. GORDON: That is what has been held.

Mr. BROOME: So it will be about \$140 million over the term?

Mr. GORDON: It will depend on the rate of attribution; but if you take the mathematical rate, you are correct.

Mr. BROOME: What would have been the situation if you had not entered into this agreement at all?

Mr. CREAGHAN: In other words, what did the strike cost them a day?

Mr. FISHER: No.

Mr. GORDON: What do you mean by that?

Mr. FISHER: What would have happened if the firemen had won their points in this regard?

Mr. GORDON: If they had gone on strike?

Mr. FISHER: No, if you had agreed; in other words, the status quo would remain.

Mr. GORDON: And carry on firemen?

Mr. FISHER: Yes?

Mr. GORDON: That is what we are doing.

Mr. FISHER: But you are going to cut down?

Mr. GORDON: Yes, eventually.

Mr. FISHER: You said the C.P.R. had the same agreement. They ran over 5,000 trains last year which did not have firemen.

Mr. GORDON: But they had a different timing. As it turned out on the timing, we were able to retain all existing firemen in service; the C.P.R. did not. I have forgotten the timing; but they had three categories. They had a class of firemen who entered the service after April, 1956, and those men were laid off as firemen with only a right to get in on a preferred basis. The C.P.R. wrote them off as firemen. We were not in that position because we started our negotiations a year ago, and from that moment we have not been hiring any new ones for the reason that we did not need them on account of traffic. We were in the position that we did not have that complication. In answer to your question, there is \$14 million as of today. That will decline over the years. If we have the same traffic level and the same number of locomotives involved, our saving will be that amount, eventually.

Mr. CREAGHAN: How many of these firemen are involved in it?

Mr. GORDON: Roughly 3400.

Mr. CREAGHAN: Is it not true that possibly the greater percentage of these 3400 will eventually become engineers?

Mr. GORDON: Yes.

Mr. CREAGHAN: And once they become engineers they will not be a liability?

Mr. GORDON: That is right.

Mr. CREAGHAN: And their years of training will be of assistance.

Mr. GORDON: The agreement in effect is that these firemen will be retained in service subject to the usual terms and conditions of service until death, promotion or pension.

Mr. FISHER: There is a point I cannot understand about this. You have crews set up to run?

Mr. GORDON: Yes.

Mr. FISHER: Traffic drops off, so you cut the board?

Mr. GORDON: Yes.

Mr. FISHER: If you are going to send out certain freight crews and yard crews without a fireman—you have that right, have you not?

Mr. GORDON: No. I think I see your point. The situation is that in any class of service where firemen were formerly employed, we are required to use them in any assignment. Now, so long as we have firemen over, we will use them on those assignments; and under present conditions of traffic we have a surplus of firemen for that purpose. But as the years go by and the number of available firemen drop, we will be at the stage where we will have a diesel locomotive that would be qualified for a firemen; but we would not have enough to go around and at that point we could run the train without a fireman. We have to keep them all employed, and it is only after that we can start sending out a freight train or yard service crew without a fireman.

Mr. FISHER: In other words, you need a boom in traffic to enable you to reach that stage?

Mr. GORDON: It would be a boom as of today before we get in the position where we would have any locomotive assignment without a fireman.

Mr. PASCOE: I have a question in regard to paragraph 27, where it sets out the operation of payrolls. Is that just the labour payroll or for all the office staff as well?

Mr. FISHER: I like that distinction.

Mr. GORDON: It is the total payroll, but it includes supervisory and everything. That is the total payroll covering everything.

Mr. PASCOE: Incidentally, it shows only 64.2 on page 13.

Mr. GORDON: And here it is 64.6. In one case you are comparing the operator dollar and in the other case the revenue dollar. I would remind you, Mr. Pascoe, you made the same point last year.

The CHAIRMAN: Are there any other questions? Is this section carried?

Carried.

The CHAIRMAN: "Taxes and rents" are next.

Mr. CHEVRIER: May I ask a question on fixed charges? Mr. Chairman, I am concerned about a portion of this heading, paragraph 33 particularly, and what I am going to say is that although the railways have modernized their equipment a great deal in recent years the economies which have resulted have been offset by increased fixed charges because of the higher capital investment required to operate this modern equipment. Is there any indication in the future of the fixed charges coming down?

Mr. GORDON: Mr. Chevrier, in the capital budget I have a rather complete memorandum, and also in the auditors report you will find a reference to the problem of our fixed charges. If you would like, I will deal with it, but I think you will find it more useful at that point when we get to our financing requirements, so to speak, because I can deal with the whole story at that time.

Mr. CHEVRIER: Without going into the details, I remember just a few years ago when the fixed charges were about half of this.

Mr. GORDON: Yes.

Mr. CHEVRIER: And that is a pretty serious drain on the revenues of the Canadian National Railways. I am wondering if there is anything that could be done other than writing off, as was done originally in the refinancing.

Mr. GORDON: As I have said, the very same question has been raised in the auditors report. Remember, these increases and fixed charges are due largely to the dieselization program, and starting a year from now I know that our capital requirements will decline very sharply. However, if you will bear with me until we get to the capital budget, you will see it more clearly at that time.

The CHAIRMAN: Are there any other questions? Gentlemen, we will now proceed to "other income".

Mr. HORNER (*Jasper-Edson*): I do not know whether or not I am in order, but could I ask some questions with regard to the operations of the Northern Alberta Railway.

Mr. GORDON: Oh yes, it is part of our operation.

Mr. HORNER (*Jasper-Edson*): I realize that, but usually there is not very much in your annual report with regard to their operations. I understand they have started on a program of dieselization and modernization as well. Does that include improving their track?

Mr. GORDON: Yes. In regard to the Northern Alberta Railway I would say that I am highly dissatisfied with its present operation.

Mr. BROOME: So are the people of Alberta.

Mr. GORDON: I think from a service point of view they may have some reason to be dissatisfied. Mr. Crump and I have had conferences on this subject and we are now engaged in an intensified examination of the Northern Alberta Railway and its operations. We are in a difficult position because we have a fifty-fifty management operation; that is always difficult. Both Mr. Crump and I have agreed we will take a realistic look at it from the standpoint of its operation and try to forget the fifty-fifty aspect in order to see if we can give a better service and thereby obtain a better financial result.

Mr. CHEVRIER: What has been the profit and loss position over the years? I see here there is no operating profit in 1958.

Mr. GORDON: It has been marginal throughout. In some cases we have barely squeezed by. But with the fall in traffic this year it was not generally a satisfactory operation. Sometimes we make a bit of money—in the order of \$100,000 to \$150,000 a year—but more often it is in a less position, before interest. I wonder if I could ask you if you could tell us what has been done in regard to projecting the Northern Alberta Railway Company in the direction of the Great Slave lake, either by the Waterways end or the Grimshaw end?

Mr. GORDON: The views of the Canadian Pacific and the Canadian National Railways have been sent to the Minister of Transport.

Mr. CHEVRIER: Are they the same views?

Mr. GORDON: It is a joint report.

Mr. CHEVRIER: You told us that last year. Is there nothing you can add to that?

Mr. GORDON: No.

Mr. CHEVRIER: I wonder if the minister could not help us a bit? Last year I asked a question of the president, as to whether anything had been done in regard to extending the Northern Alberta Railways to Great Slave lake, either from the Waterways end or the western end, and he said his views and those of the Canadian Pacific had been transferred to the government.

Is the government, through the minister, able to give some indication of what has happened, because it is now certainly more than 12 months since we have had information from the government and the minister on it. I wonder if he could not help the committee on that?

Mr. HEES: There seems to be a great difference of opinion among the people of the province itself as to which is the most desirable route. We are still examining this question and have not yet come to a conclusion.

Mr. BROOME: Could I ask a supplementary question to that? Perhaps I could ask it of the minister and Mr. Gordon. The question is; to what degree has the thinking of the railway been influenced by the fact that one route means captive traffic and the other—

Mr. CHEVRIER: What type of traffic?

Mr. BROOME: "Captive" traffic, and the other route means competitive traffic through to the Pacific Great Eastern.

Considering the fact the extension of the P.G.E. has resulted in marked reduction in the freight tariffs in the Peace river area, the C.P.R. and C.N.R. had to reduce their tariffs quite markedly in order to meet the lower tariffs coming through the P.G.E. to the coast.

What influence has this had with the railways, the fact the western route would mean another railroad could participate in the traffic and there could

be a choice, from the shippers' point of view, as to which route would be followed. They would not have to go C.P.R. or C.N.R.; they could go P.G.E. also.

Mr. HEES: It is a very difficult question to answer. The main problem here could be decided by the people of the province themselves, and it would be a great help if they would decide, themselves, which route they would prefer.

Mr. CHEVRIER: Could I ask the president a question?

The CHAIRMAN: Yes.

Mr. CHEVRIER: Can the president give the committee some idea of what the cost of this railroad would be, in either direction?

Mr. GORDON: I could, but I do not think it would be appropriate for me to do so.

We have been asked by the government to make a joint report to the government on the factors involved in extending a line of the railroad to that point. That report has analyzed, to the best of our knowledge, all the factors involved.

I do not think it is appropriate for me to discuss any single factor in the report without discussing the whole report.

Mr. CHEVRIER: I can understand why you would not want to discuss recommendations to the government, but why is it you cannot tell us what the cost of the railroad would be?

Mr. GORDON: With the permission of the minister, I would be glad to do so.

Mr. HEES: I think that is something that can wait for a while, Mr. President; it will not spoil.

Mr. FISHER: When was this report forwarded to the minister? When was the joint report forwarded to the government?

Mr. HEES: Some time ago.

The CHAIRMAN: The report on what?

Mr. FISHER: The report that Mr. Gordon has been talking about. I want to ask him when it was sent forward.

Mr. GORDON: I think I had better be my usual discreet self and leave the question to the minister. He is fully informed upon it.

Mr. CHEVRIER: Could I put Mr. Broome's question another way and perhaps you could answer it, Mr. Minister? Since the railways forwarded their report some time ago with definite recommendations, and since there has been this subsequent delay, are we to assume that the railways' recommendations are not to be given consideration?

Mr. HEES: No, you are not to assume anything.

Mr. FISHER: You will make no statement at all?

Mr. CHEVRIER: Will the minister not give permission to the president to tell us what the cost is?

Mr. HEES: The answer is, "no".

Mr. CHEVRIER: Can the minister tell us,—over and above what he has already said as to the difference of opinion in the selection of routes—whether there is some other reason why the railroad is not going forward.

Mr. HEES: The railways have done their job, and they have made a very thorough study and have submitted a very excellent report to the government. The government is now studying that report.

Mr. CHEVRIER: You have been doing that for many months now—it must be 18 months.

Mr. HEES: We have been studying it for a few months; not 18 months.

Mr. CHEVRIER: It is over 12 months.

Mr. BROOME: In considering the financing of this railway, will it be taken into account the government contribution is not the only contribution from public funds, that the C.N.R. contribution is one from public funds, also, and that the only private contribution is that of the C.P.R.?

Mr. HEES: All these things are taken into consideration.

The CHAIRMAN: Are there any further questions?

Mr. FISHER: We have all kinds of questions on growth and progress.

Mr. McPHILLIPS: Mr. Chairman, I have a question on other income.

The CHAIRMAN: Go ahead, Mr. McPhillips.

Mr. McPHILLIPS: On page 29 under the heading of "other income", the statement is rather general, and I want to ask if this included, for instance, income from the operation of the Ogden point ocean docks in Victoria?

Mr. GORDON: If there is any income it would be under the general heading of "Miscellaneous" but I have not any particulars available at the moment.

Mr. McPHILLIPS: What is the nature of the holding of the docks by the C.N.R.? It was put under the C.N.R. for administration purposes in 1923, but was it conveyed or leased?

Mr. GORDON: I think I have my file here to remind myself of it.

The CHAIRMAN: Pardon me for interrupting, but in view of the fact that the minister is about to leave us, he is ready to answer any other questions you may have.

Mr. HEES: With equal directness.

Mr. BROOME: In the same manner?

The CHAIRMAN: Mr. McPhillips, if you or any member has any question to ask of the minister, I think he would be glad to answer it before he leaves. Have you any questions?

Mr. FISHER: Not for the minister; we have asked him enough.

Mr. GORDON: I take it you are referring to what is known as the wharves in the inner harbour of Victoria, British Columbia, which was related to the Grand Trunk Pacific property?

Mr. BROOME: No, the outer docks at Ogden point.

Mr. McPHILLIPS: I suggest perhaps it would be easier for the president to look it up, and I could refer to it again tomorrow.

Mr. FISHER: Would you file this year, as you did last year, your profits and losses in the various hotels?

Mr. GORDON: Yes, I will do that if the committee wishes me to. I will have it ready for you tomorrow.

The CHAIRMAN: Hotel operations are coming up.

Mr. CHEVRIER: No, we are on them now.

The CHAIRMAN: Yes, it is part of this. That is right.

Mr. FISHER: I wanted to get that on the record.

Mr. CREAGHAN: While we are on hotels I have a couple of questions. I would like to know which one of the hotels showed a profit, and which one had a loss?

Mr. GORDON: I will give you a statement in full tomorrow.

Mr. BROOME: If you file a statement, that is good enough, is it not?

Mr. CREAGHAN: I think a statement would be all right. He can give me a statement on hotel operations.

Mr. GORDON: The statistics we are talking about show the net result of each hotel. I have it right here; it will only take a minute to put it in and we can get rid of it. This is the net income. The Bessborough hotel shows a loss before interest of \$16,413. The hotel Charlottetown and the rest show a net profit.

The Charlottetown's net profit was \$13,696; that of the Chateau Laurier, \$128,547; the Fort Garry, \$161,211; Jasper Park, \$86,077; the Macdonald, \$543,821; the Nova Scotian, \$54,680; and the hotel Newfoundland, \$205,096.

Then there is our portion of the Vancouver hotel which is shown as \$154,642.

Mr. CHAIRMAN: I have a very picayune criticism about the Chateau Laurier, after living there since 1925. They made \$128,547, and I suggest they put in televisions similar to what you will find in motels and other hotels.

Mr. GORDON: It is being engineered right now. We will have them in very shortly.

The CHAIRMAN: I was lugging around a portable radio. Quite often when I want to listen to Mr. Chevrier on the radio I find that half the time the batteries have gone dead. I think with a hotel which is as fine as the Chateau Laurier it is unfortunate—and I have heard it said by tourists and other people, world travellers from Europe. This is our capital city.

Mr. CHEVRIER: I agree.

The CHAIRMAN: I was being facetious in my remarks, but it is the capital, and I have heard people from Europe, world travellers, say that they think in many ways it is the nicest hotel they have ever stayed at. It is like the Chateau Frontenac, but quite frankly it seems to be a little behind the "eight-ball" when they have neither radio nor television in the rooms.

Mr. FISHER: I agree, and I congratulate you, Mr. Chairman on being able to afford to stay there.

The CHAIRMAN: I do not know about that. I have not paid my bill yet.

Mr. FRASER: Last year I asked about television when Mr. Gordon said that he had one in his room and that he ran the aerial up the chimney. I myself rented one from the Chateau, but I could only use the rabbits ears on it because there was no outside aerial.

Mr. GORDON: We have engineering work going on in the matter of getting television into the Chateau Laurier. Perhaps Mr. Sommerville could say a word about it because I see he is here.

Mr. R. SOMMERVILLE (*Gen'l Mgr. Can. Nat. Hotels*): Mr. Chairman, some time this fall there will be television and radio in every room of the Chateau Laurier, and they will be connected to a central antennae.

Mr. GORDON: It is in this year's budget. It will be properly engineered, and you will get good reception.

Mr. FRASER: When you say that you will get television for us, I hope you will not increase the rates because they are high enough right now. I have been staying there for 19 years. It is the only hotel I go to that does not have television.

Mr. GORDON: Wherever a hotel on the North American continent has put in television, you will find that they have increased the rates.

Mr. FRASER: In regard to the new parking facilities at the Chateau, do you expect to make any revenue out of them?

Mr. GORDON: Yes, we do. I feel you should refer to them as Gordon's triumph for the record, because it took me five long years to get it done! But it is installed now, and it is being handled by concession as to the actual parking space; and we expect to make money out of it.

Mr. FRASER: What about its use in wintertime?

Mr. GORDON: It will be available in wintertime; it will be kept ploughed. That is the intention. It remains to be seen how successfully it works out.

Mr. CHEVRIER: It is much less dangerous to park there than it is in the House of Commons area.

Mr. GORDON: We were most regretful that we could not get our complete plan—that is, a larger strip of the park at the back of the hotel. But we were unable to make an arrangement with the Federal District Commission. If any of the members of parliament have some influence in that direction, I wish they would start to put pressure on now, in order that we may get a larger share of that part of the park to give us a larger parking area. I invite your cooperation and assistance in applying pressure, because I do not know how to do it!

Mr. FRASER: With respect to this addition to the Nova Scotian hotel, will it have television in the new part.

Mr. GORDON: There will be television in the new part.

Mr. FRASER: And radio also?

Mr. GORDON: A combination, yes.

Mr. CARTER: Has Mr. Gordon any plans for an extension to the Newfoundland hotel?

Mr. GORDON: I cannot say that it is in the planning stage yet, but it is definitely under consideration. We do not feel that we should be doing any more in the hotel field until we get through with the Nova Scotian; but we are trying to convince ourselves to bring forward a recommendation with respect to the Newfoundland.

Mr. CREAGHAN: With respect to this figure of \$1.9 million net from hotels, I presume there is another figure in here to cover the Queen Elizabeth? Is that shown on page 29 as interest on income?

Mr. GORDON: It is included in the item called "Hotel Income" which you will find on page 29.

Mr. CREAGHAN: That is a point I was not certain about. In the figures you gave us you did not mention the Queen Elizabeth.

Mr. GORDON: Do you want that figure?

Mr. CHEVRIER: Yes, I do. I was going to ask the president if he would not tell us just how the contract with the Hilton people is working out at the Queen Elizabeth, whether satisfactorily or not, over and above what is contained in the report.

Mr. GORDON: Yes.

Mr. CHEVRIER: And what is the revenue for the year 1958?

Mr. GORDON: Well, I can give you the net profit to the Canadian National Railways in 1958, but you should remember that it only operated for a portion of the year. It was \$519,753. But that has to be substantially qualified by the fact that it was operated not only for part of a year, but it was also in the early stages of settling down. In other words, I would say that we would do even better when we get the full year of 1959.

Mr. CHEVRIER: Then you will have a profit of \$1 million a year at that rate.

Mr. GORDON: I would not predict that it would be more, but I would be disappointed if it is not.

Mr. CHEVRIER: Can you say a word about the nature of the agreement with the Hilton people?

Mr. GORDON: Yes. You will remember that in previous discussions about it I took the position that it would not be appropriate—and the committee

supported me—to divulge the split or division between us, under the agreement between Hilton and the Canadian National Railways, for the reason that we had a much more favourable agreement with them than any of their other hotels throughout the world, and that they would be embarrassed if we revealed that figure, because it would be used against them in negotiations elsewhere.

We are able to justify that more favourable agreement by using the special position of the Canadian National hotels in Canada; so they have asked us particularly not to make that figure a matter of public knowledge. But I have no hesitation in giving you the net position as it affects the Canadian National Railways.

Mr. FRASER: Does that include all the bond expenses and costs?

Mr. CREAGHAN: He said net.

Mr. GORDON: It covers all taxes, and provision for all taxes, also for depreciation on the building, but it is net profit before interest on the investment.

Mr. CREAGHAN: What is the total investment?

Mr. FRASER: And what would the interest be?

Mr. GORDON: The investment, roughly, is \$25 million.

Mr. FRASER: On the Queen Elizabeth alone? The Queen Elizabeth itself?

Mr. CATHERS: It is shown on that page under hotel real estate; Canadian National Hotels, \$29 million. Surely that is not right.

Mr. GORDON: Which page is that?

Mr. CATHERS: Page 34, under capital stocks owned by system, Canadian National Hotels Limited. . . . \$29,257,700.

Mr. GORDON: That does not include the Queen Elizabeth investment.

Mr. PASCOE: I wonder if Mr. Gordon could indicate the reason for the loss at the Bessborough hotel?

Mr. GORDON: I am sorry, I was listening to someone else.

Mr. PASCOE: I wonder if you could indicate the reason for the losses in the Bessborough Hotel, whether it is loss of business?

Mr. GORDON: I would think it would be summarized by lowered traffic—lack of business, yes.

The CHAIRMAN: Any further questions?

Mr. BROOME: Is the joint operation of the Hotel Vancouver very satisfactory, the fact that two railroads are operating it? Would it not be much better if either you sold out to the C.P.R. or they sold out to you, and whichever railroad sold out built another hotel in Vancouver?

Mr. GORDON: That is one of those \$64 questions. We own the building, you remember, and the Canadian Pacific Railway back in 1937 undertook to withdraw from the hotel business and give up the hotel business in Vancouver in exchange for an agreement with us whereby they had joint operation, not joint ownership. So we own the building and there is a rental charge as part of the joint operation; and that is an operation, I think, which is reasonably satisfactory.

We regret the agreement at the present, that is, present-day management of Canadian National regret the agreement, but we do not quarrel about it. In the circumstances under which it was made it was probably a sensible thing to do.

Mr. BROOME: You might force the Canadian Pacific to build another hotel if you kicked them out.

Mr. GORDON: I find it very difficult to force the Canadian Pacific Railway to do anything.

Mr. DRYSDALE: I have difficulty placing it, but it seems to me there was some contemplation by the Canadian Pacific Railway that this would be turned over to the Hilton organization.

Mr. GORDON: In Vancouver?

Mr. DRYSDALE: Yes.

Mr. GORDON: No, the situation that you are recalling is that under our agreement with Hilton it was on a particular transaction and they would not go into the hotel business in any city in which the Canadian National Railways already had a hotel; in other words, they would not compete with the Canadian National without the consent of the Canadian National. However, we excluded from that agreement the city of Vancouver, because they were currently discussing such a possibility at that time. The way it was laid down was that they would notify us of their intention to go into Vancouver at any time and then we had the option of inviting them in with us or consenting to their going ahead.

Mr. DRYSDALE: You would like, I suppose, to operate the hotel under the Hilton organization if you could?

Mr. GORDON: No, I do not think we could, under the agreement with the Canadian Pacific Railway, turn the hotel over to Hilton operation.

Mr. DRYSDALE: Of that \$154,642 what share did the Canadian Pacific Railway get?

Mr. GORDON: It is fifty-fifty after allowing for the fact that we get the rental as owners of the hotel.

Mr. DRYSDALE: Is that included in the \$154,000?

Mr. GORDON: Yes.

Mr. CHEVRIER: No, that would not be included.

Mr. CREAGHAN: That was close to the question I was leading up to. You said that the net figure of \$519,000 did not give any consideration to the bond issues?

Mr. GORDON: That is right.

Mr. CREAGHAN: Does the same formula prevail for the profit and loss statement on the other hotels or are those real profits?

Mr. GORDON: Those are all profits before interest.

Mr. CHEVRIER: So the comparison is the same between the Queen Elizabeth and the other hotels.

Mr. CATHERS: Is that a good accounting practice to say you have a profit before you pay the interest on the money you have borrowed?

Mr. GORDON: So long as we declare it, it is quite in order.

Mr. CATHERS: Rather unusual.

Mr. CHEVRIER: Why have you followed that practice with hotels and do not do it with your other operations?

Mr. GORDON: I think we do it on our other operations.

Mr. CHEVRIER: In your annual report you have shown a number of things before you declare your profit or loss.

Mr. CATHERS: Fixed charges come off first.

Mr. GORDON: You have got to remember this is a consolidated statement we are discussing. The interest paid on the total amount of our capital investment is shown on page 29 of the consolidated statement, so the end results of the railway in respect of interest paid have already been taken into account.

Now, in regard to the hotels, I can give you the figure for interest if you think that is the figure you want to put on it. We do not provide any for the

hotels. It is just part of our general financing. The only figure you could put on and make sense, I suppose, is to take the average rate of interest the railway pays from year to year on loans then outstanding. That changes from year to year.

Mr. CATHERS: But do you not think you cannot say you have a profit on the operation when you have not paid your interest?

Mr. GORDON: It is just a matter of terminology.

Mr. DRYSDALE: Does that \$29 million for the hotels include interest?

Mr. TOOLE: It is impossible to allocate your funded debt to specific assets. We have funded debt and we have share capital. Those are our two sources of money, and during the season those two sources are spent for different assets. So before you have paid for these moneys you cannot say, "The money I borrow today I will use for this asset and the money I borrow tomorrow will go to that asset." The bond issue today belongs to no particular asset.

Mr. CATHERS: Then I think you cannot follow up and say you have a profit on that operation.

Mr. GORDON: We do not; we say a net profit before interest.

The CHAIRMAN: As long as you say before interest when you read it, as has been said, it does not make it as clear as it does when you analyse it.

Mr. CATHERS: I would like to ask Mr. Gordon, this Queen Elizabeth arrangement you have made on which they are operating it, they are just the managers of it, are they?

Mr. GORDON: Yes, that is right.

Mr. CATHERS: Is that going to be a policy of the Canadian National in connection with their other hotels?

Mr. GORDON: We have no other discussions of that kind going on at the present, and I would not like to forecast forever, but there has been no immediate consideration given to any other arrangement of that kind.

Mr. CATHERS: Well, do you see any justification when you look at those figures for the railroad staying in the hotel business?

Mr. GORDON: No.

The CHAIRMAN: Mr. Chown?

Mr. CHOWN: I want to ask a question of Mr. Toole, Mr. Chairman. As he knows, there was a change in auditors both for the eastern region and the western region this year. Are you satisfied with the service they have rendered?

Mr. TOOLE: All I can say on that is that the new auditors have not yet started to work.

Mr. GORDON: Just one moment. I want to say here I do not think it would be appropriate for us to express an opinion on the auditors. The auditors are appointed by the government.

The CHAIRMAN: That is another question you should have asked the minister.

Mr. GORDON: The auditors are appointed by the government and the government should express a view.

Mr. CHOWN: They have not been the auditors yet?

Mr. GORDON: No, the previous auditors have cleaned up the audit for 1958, and the report which we will be considering from the auditors is the report of George A. Touche and Company, and they will be available here to comment on the 1958 year audit.

Mr. FRASER: Mr. Chairman, may I ask a question?

The CHAIRMAN: Yes, go ahead.

Mr. FRASER: In the agreement with the Hilton people do they pay for the wear and tear on the furniture, rugs and so on in the hotel? Do they replace them or does the Canadian National?

Mr. GORDON: Well, there is a whole page of arrangements in regard to the accounting and the bookkeeping, but I can say, generally speaking, they do take care of that type of thing as part of the payment that is included in the arrangements; so that at the end of the agreement or at the end of a given period we should have accumulated a fund which would enable us to replace the wear and tear.

Mr. FRASER: At the end of their lease, then, you would be clear, so that you could replace the furniture...

Mr. GORDON: Not necessarily at the end of the period; but they would have exhausted the period of life in it. We have a life period for each type of asset. Furniture runs about 12 years. We depreciate on that basis.

Mr. CATHERS: Have you any funds to replace the furniture in the Chateau?

Mr. GORDON: Not as such.

Mr. CREAGHAN: Mr. Fraser's second last question pretty well took the interest of my question. I am dealing now with hotels.

Last year, if you remember, I asked you several questions about a hotel in New Brunswick, in order to make your company truly national, because you call it the Canadian National Hotels. I was very interested in your statement to Mr. Carter that there was some possibility of an extension of the one in Newfoundland. Far be it from me to want to say anything that might affect that hotel; but I was wondering if Mr. Sommerville could tell the committee if you have any plans for a hotel in New Brunswick.

There has been expectation, hope and talk there for the last 25 years odd, and people still expect one. I am not concerned about where it would be located; I feel quite confident that if you came into New Brunswick you would come into the city of Moncton. I was wondering if Mr. Sommerville or yourself could make a statement on that.

Mr. GORDON: That would be a question of policy and would not be proper for Mr. Sommerville to answer. He is the general manager of hotels. The general policy of where we build a hotel would be a matter for the management of the C.N.R., so I will answer your question. We have no intention of building a hotel in Moncton.

Mr. CREAGHAN: That is the answer you gave me last year, and it seems to me that it would be quite appropriate and proper if your company would at least conduct a survey of the hotel industry there.

Mr. GORDON: That has been done.

Mr. CREAGHAN: It was done 25 years ago, and you built it on Prince Edward Island.

Mr. GORDON: Someone—I have forgotten who—asked me whether we saw any reason for staying in the hotel business, and I answered the question in the negative.

It is not our intention to build hotels anywhere. The only exception to that general policy has been the Queen Elizabeth hotel, which was built not so much for the purpose of an hotel, but it had a very valuable collateral purpose in establishing in the terminal site a development of an area which had lain dormant for over 30 years. We came to the conclusion, as management, that if we showed faith in the area to the extent of trying to put some life in it, we could liven up the whole terminal area.

Our gamble—and it was a gamble; it was a business gamble—has paid off, because of the fact that we put the hotel in that area and we have now got a going business there. That whole terminal area has become very valuable;

today there are some \$300 million of buildings planned for erection on what was laughingly referred to as "the hole in the ground".

Mr. CHEVRIER: With reference to the Place Ville Marie, which is across the way from the hotel—and to which no reference is made in the report—what progress has been made with the Webb and Knapp people, and to what extent is the construction work proceeding on a portion of what has been referred to, unfortunately, as "a hole in the ground", which is turning into a very profitable enterprise, I believe?

Mr. GORDON: The Place Ville Marie is not a C.N.R. project. It was part of the agreement we made with the Webb and Knapp interests to develop the area of what has come to be known as the Cruciform. The building is still incomplete. They have a time limit, to show good faith, in the matter of the erection of the building. The foundation work is well advanced, and my last recollection was that the steel contract had also been awarded; so it is in progress.

Mr. CHEVRIER: You own the ground rights, and they have leasehold rights?

Mr. GORDON: Yes, a 99-year lease.

Mr. CHEVRIER: The building will be theirs?

Mr. GORDON: The building will be theirs, subject to any arrangement they may make with other people in respect to a purchase arrangement which we made with the Royal Bank of Canada, and announced about a year ago.

We sold out our property rights in that respect, but held back in perpetuity that portion of the foundations needed for railway purposes. So when the 99 year lease is over, the building will be under the ownership of the Royal Bank of Canada.

Mr. CHEVRIER: What you have said applies to the Cruciform building only. What about the other parts that are to the west of that?

Mr. GORDON: There is no development in that, but that is also part of the Webb and Knapp program. They have now got the Place Ville Marie well advanced. There is a building to be erected just across from the Sun Life there. There is a building in the plan there, but that has not proceeded beyond the planning stage at the moment.

Mr. CHEVRIER: So there is a building planned there?

Mr. GORDON: North of Dorchester, yes.

Mr. SMITH (*Simcoe North*): So one of the reasons for building the Queen Elizabeth hotel in Montreal was to increase the real estate value of the land already owned by the C.N.R. in that area?

Mr. GORDON: That is quite right. We took a business risk in trying to stimulate interest in what I have referred to as "the hole in the ground".

When I went to the C.N.R., one of the first things that worried me was that we had in the heart of Montreal a very large potential of real estate value, if it could be sparked and stimulated. We tried everywhere to get someone to take an interest in that development. That was not possible. I tried to get somebody to take an entrepreneur risk in that development, but that failed.

We then embarked on the hotel project ourselves, with the conviction that we could make a success of an hotel. But the two things really hung together and, without explaining why it was, we made an exception to our general policy, which is that we have no interest in erecting any new hotels anywhere. We will extend or expand existing buildings, if we feel it is to our economic advantage to do so; but we do not wish to erect any further hotels.

Mr. SMITH (*Simcoe North*): Having regard to the net income of the hotel, in regard to the capital investment, it is not a terrific financial success, is it?

Mr. GORDON: No. But you must remember that times have changed. The reason the railways went into the hotel business was to encourage passenger

traffic to come and stay at the hotels. But that reason does not apply now. Habits have changed: a great deal of the railway business comes in by automobile and aeroplane, and it is no longer the attraction it used to be.

Mr. CREAGHAN: Does your company own T.C.A.?

Mr. GORDON: Yes; but we do not receive dividends from T.C.A.

Mr. CREAGHAN: So it does not matter how the passenger gets to the hotel, whether it is by T.C.A. or a subsidiary company?

Mr. GORDON: Yes; but we do not need the hotel to attract them any more.

Mr. McPHILLIPS: How many years has that agreement in respect to the hotel got to run?

Mr. GORDON: May, 1960.

Mr. DRYSDALE: Mr. Gordon, I think you have misunderstood me before—

Mr. GORDON: One moment. I want to correct that, because, while it is May, 1960, for the Vancouver Hotel, there is an option for renewal for 21 years.

Mr. DRYSDALE: Before, when you mentioned this item, I mentioned this amount of \$154,642 and I asked if that included the rental. You said, "Yes". I wonder if that is correct.

Mr. GORDON: The rental on what?

Mr. DRYSDALE: This is the Hotel Vancouver.

Mr. GORDON: It does, yes.

Mr. CHEVRIER: But that is the net income, is it not?

Mr. TOOLE: The rental is part of the income.

Mr. DRYSDALE: What does the C.P.R. get; let us put it that way?

Mr. GORDON: There is a formula breakdown, and you have to go back to the formula to understand it. We took \$277,948, but we had to provide our own depreciation in that. Having provided depreciation, our net figure is \$154,642, which is the figure I gave you. The breakdown for the C.P.R. is \$137,949.

Mr. DRYSDALE: How much is the yearly rental for that?

Mr. GORDON: It is a formula breakdown here. What I have to be careful of is that I do not expose myself to income tax. That is why I am careful of my figures. The total available profit is \$415,897. You start with that figure and then you split it.

Mr. TOOLE: It is all rent. You split it and the whole income is considered rent.

The CHAIRMAN: Are there any other questions?

Mr. HORNER (*Jasper-Edson*): I realize that Jasper Park Lodge is one of the things near to your heart. Would not perhaps an airport at Jasper be a help in bringing business to the lodge?

Mr. CHEVRIER: Do you not have a landing strip there?

Mr. GORDON: There is a landing strip. I am not sure whether or not it is used to any extent.

Mr. SOMMERVILLE: There is a landing strip for small aircraft.

Mr. HORNER (*Jasper-Edson*): What I have in mind is something larger.

Mr. GORDON: You must remember that Jasper has a very short season. The cost of an airport to service that very short season would be pretty much out of the question.

The CHAIRMAN: Are there any other questions? If not, we will go to "growth and progress".

Mr. CHEVRIER: Could you tell us what new branch lines you have in mind to construct in 1959?

Mr. GORDON: We have no new lines in contemplation in the sense that we are ready to go forward with legislation on them. Everything that is under construction has been approved in the form of a bill. It covers the Moak lake line, the Optic and Chisel lines, and so forth, which were dealt with last year. There is nothing new. There are, however, a few surveys being made.

Mr. FISHER: Is one of the surveys the lines into north and east Nakina?

Mr. GORDON: That has been mentioned; but there is nothing concrete in respect of it now.

Mr. FISHER: Will the fact that a road is being built in there have any effect?

Mr. GORDON: It will depend on what terms we can reach with the mine operators on the edge of that district, in terms of a guarantee.

Mr. FISHER: Have you studied the possibility of putting in an ore dock at Nipigon?

Mr. GORDON: Nothing definite. Our policy in that respect is to discuss it with the people who may have in mind mineral development. If they can show us they are at the point where they will undertake a traffic guarantee, we will get on with a survey of the line in order to determine the cost and the nature of the guarantee.

Mr. FISHER: The story is going around that they are studying shipping facilities at Jackfish on the C.P.R. I would hope the C.N.R. would retain an interest all the way and not have the C.P.R. move in alone.

Mr. GORDON: I can certainly assure you we are alive to our interests there, but the Anaconda people are not far enough ahead in the economics of the exploration of the ore deposits.

Mr. CHEVRIER: What is the building which you are constructing just outside of Montreal? It is not a branch line?

Mr. GORDON: You mean the Cote de Liesse yard?

Mr. CHEVRIER: The track seems to go in that direction.

Mr. GORDON: It must be the yard. It is the new hump yard in our Montreal terminal.

Mr. CHEVRIER: Is it exclusively for freight traffic?

Mr. GORDON: Yes. It is the marshalling yard in that area.

Mr. CHEVRIER: Have you not rerouted a portion of the passenger line.

Mr. GORDON: You are thinking of the swinging of the C.P.R. line coming through on the Lachine diversion.

Mr. CHEVRIER: Yes.

Mr. GORDON: That was brought about by an arrangement made between ourselves and the city of Lachine, whereby we routed the line so as to avoid cutting over through the centre of Lachine. If we had taken off our line to get access to our Cote de Liesse yard, we would have had to cut the city of Lachine right in two. We have been in discussion with them for many years and have reached an amicable settlement. We were able to agree also that the C.P.R. would swing north, and we move along the south side of the C.P.R. and avoid going through the city of Lachine, and still have access to our yard.

Mr. CHEVRIER: Would they have to cross your line and vice versa?

Mr. GORDON: No. We were able to separate the grade in the general set-up. We have to pay the cost involved in the swinging of the line.

Mr. MONTEITH (*Verdun*): In speaking of Lachine, did I hear that you are planning some time to close the Lachine station?

Mr. GORDON: Yes. The line through Lachine, as it presently exists, will be closed, except as a switching line for one or two industries which remain on the spur. There will be no traffic as such and the passenger service will be discontinued.

Mr. MONTEITH (*Verdun*): There will be no station near Lachine after that?

Mr. GORDON: No passenger station.

Mr. FISHER: How is the line working out which you put into Manitouwadge where you are in very direct competition with the C.P.R.

Mr. GORDON: Pretty well. I would like to see some more traffic; but we are not too disappointed.

Mr. FISHER: Are you meeting out-of-pocket expenses?

Mr. GORDON: I think so.

Mr. CHEVRIER: I believe it has been in operation for about four years. The statute was passed in 1954.

Mr. FISHER: The C.P.R. shipped their first ore about three years ago.

Mr. CHEVRIER: Is it a profitable operation each year?

Mr. GORDON: We think so. We believe it has a good potential.

Mr. FISHER: I still cannot figure out why there should be two branch lines in there.

Mr. GORDON: Neither can we. We were in there first. The C.P.R. got in from the south.

We felt we had the first right of access. The developers, however, the people in the camps decided they wanted two railways and they approached the C.P.R., who decided to build. There was no way as far as I know, to stop them.

Mr. FISHER: May we ask questions on roadways?

The CHAIRMAN: Yes.

Mr. FISHER: Have you any plans to include a roadway to Atikokan? I believe they are making arrangement for a reputedly very sharp increase in traffic.

Mr. GORDON: Are we speaking of Steep Rock?

Mr. FISHER: Yes.

Mr. GORDON: We have been very disappointed with the value of the shipments out of Steep Rock, so far. We are now equipped to handle well beyond the amount of ore which has come out this year and which is expected for the next coming year. We will keep our eyes on the development there.

Mr. FISHER: In respect of the ore dock at Port Arthur, will those facilities be available if any other properties are opened up in the region of Shebandowan, or anything of that sort? Will that be kept open?

Mr. GORDON: If they ship over C.N.R. lines, yes.

Mr. FISHER: It is not restricted to Steep Rock?

Mr. GORDON: No.

Mr. CHEVRIER: Under "new rails" what progress is being made in the construction of the other half of the Chibougamau line from St. Felicien to Cache lake.

Mr. GORDON: It is well in hand.

Mr. CHEVRIER: Will it be completed this year?

Mr. GORDON: The grades and the bridges are well advanced and the track laying is under way. We are estimating that we will be able to commence train service by the end of 1959; that is this year.

Mr. CHEVRIER: Is it correct that the contractor or the contractors are having some pretty serious difficulties?

Mr. GORDON: There have been difficulties with the contractors concerned, and these difficulties are now being discussed. Some of the contractors have claimed they have lost money on certain portions of the work.

Mr. CHEVRIER: It seems to me I have heard that one before.

Mr. GORDON: Yes, it has been going on for some time and I do not know the outcome of it at the moment.

Mr. CHEVRIER: Could I ask you a question about another railway. There were representations made recently to the Minister of Transport in regard to the Gaspé Railway, and I notice the C.N.R. have made some studies of various routes. Have those studies been advanced in the last year or so?

Mr. GORDON: No. We made studies on a number of occasions over many years. In fact, we looked over a total of seven different routes but we have never been able to make one stand up economically. So we have no plans in regard to extending the Gaspé route.

Mr. CHEVRIER: I thought there was one route which, with a government contribution, might lend itself to a profitable operation.

Mr. GORDON: There was one at one time and they changed their minds and drove a road up to—

Mr. CHEVRIER: Murdochville?

Mr. GORDON: No, that is not the port.

Mr. CHEVRIER: Gaspé is the port.

Mr. GORDON: It was not that.

Mr. CHEVRIER: The road runs from Gaspé to Murdochville.

Mr. GORDON: Is Murdochville on the coast?

Mr. CHEVRIER: No, it is inland.

Mr. GORDON: I am talking about another place.

Mr. CHEVRIER: Oh, it is Ste. Anne des Monts.

Mr. GORDON: In any event none of the ones we examined stood up.

Mr. FISHER: In the introduction of automatic machinery in so far as taking care of roadways is concerned, have you completed your expenditures in that regard or have you still some way to go?

Mr. GORDON: On what roadway?

Mr. FISHER: In connection with the automatic machines you use for ballasting, tie-lifting and tie-setting.

Mr. GORDON: That is a continuing program. We have so much in our budget each year for that purpose. The machines wear out. Although we are almost completely equipped, we have so much in our capital budget each year for the renewal of this equipment.

Mr. FRASER: Mr. Chairman, in connection with rolling stock, I asked in this committee last year a question regarding the painting of freight cars with a light colour or aluminized paint so as to safeguard automobiles from driving into the side of these cars. Shortly after that the government put in a bill and allowed the railways so much a year to paint these cars. Would Mr. Gordon tell us how many the C.N.R. have painted?

Mr. GORDON: None.

Mr. FRASER: Why?

Mr. GORDON: Well, first of all—

The CHAIRMAN: Gentlemen, it is a quarter to ten and I suggested we would adjourn at quarter to ten, to meet tomorrow morning at nine o'clock.

Mr. FRASER: Mr. Gordon, will you answer this question tomorrow morning?

Mr. GORDON: Yes, Mr. Fraser, I will do that.

ATLANTIC REGION

Between	Class of Traffic	Mileage One Way	Round Trips Per Day	Service Frequency
Bathurst-Tracadie, N.B.....	L.C.L. & Express.....	81	1	M to F
Bathurst-Shippigan, N.B.....	L.C.L. & Express.....	77	1	M to F
Campbellton-Bathurst, N.B.....	L.C.L.....	79	1	M to F
Campbellton-Dalhousie, N.B.....	Exp., Mail & Baggage.....	16	2	M to S
Charlottetown-Georgetown, P.E.I.	L.C.L., Exp. & Mail.....	49	1	M to S
Charlottetown-Murray Harbour...	L.C.L., Exp. & Mail.....	68	1	M to S
Charlottetown-Souris-Elmira, P.E.I.....	L.C.L., Exp. & Mail.....	72	1	M to S to Souris.
		92		Tue. & Fri. Elmira.
Charlottetown-Summerside, P.E.I.	L.C.L. & Express.....	48	1	M to S
Fredericton-Edmundston, N.B.....	L.C.L.....	205		Outbound Tue. & Thurs.
				Inbound Wed. & Fri.
Halifax-Shelburne, N.S.....	L.C.L.....	168		Outbound Monday. Inbound Tuesday.
Halifax-Bridgewater- Lunenburg, N.S.....	L.C.L.....	77	1	Thursday
Halifax-Truro, N.S.....	L.C.L.....	72	1	Wed. & Fri.
Inverness-Port Hawkesbury, N.S.	L.C.L. & Express.....	57	1	Tue. & Sat.
*Lunenburg-Mahone Bay, N.S.....	Express.....	8	2	M to S
Moncton-Havelock, N.B.....	L.C.L. & Express.....	31	1	M W F
Moncton-Newcastle, N.B.....	L.C.L. & Express.....	87	1	M W F
Moncton-Pointe du Chene, N.B....	Exp. Mail & Baggage.....	25	1(2)	M to F(Sat.)
Moncton-Richibucto, N.B.....	L.C.L. & Express.....	62	1	M to F
*Mulgrave-Hayre Boucher, N.S....	Express.....	10	2	M to S
Moncton-Saint John, N.B.....	L.C.L. & Express.....	98	1	M to F
Moncton-Springhill Jet.—River Hebert, N.S.....	L.C.L. & Express.....	72	1	M to F
Newcastle-Chatham, N.B.....	L.C.L.....	16	2	M to F
Newcastle-Fredericton, N.B.....	L.C.L. & Express.....	115	1	M to S
Newcastle-Loggieville, N.B.....	Express & Mail.....	18	4	M to S
New Glasgow-Port Hawkesbury, N.S.....	L.C.L.....	79	1	M to F
New Glasgow-Oxford, N.S.....	L.C.L.....	94	1	Saturday
New Glasgow-Thorburn- Sunnybrae, N.S.....	L.C.L., Exp. & Bgge.....	35	4	M to S
	(1 trip to Sunnybrae & Hopewell 1 trip to Thorburn & 2 trips to Trenton, N.S.)			
Pictou-New Glasgow, N.S.....	Exp., Mail & Baggage.....	18	3	M to S
Riviere du Loup-Edmundston, N.B.....	Express.....	88	1	M to S
Sackville-Cape Tormentine, N.B..	L.C.L.....	41	1	Tue. & Fri.
Springhill Jet.—Springhill, N.S....	L.C.L. & Express.....	4	3	M to S
Summerside-Tignish, P.E.I.....	L.C.L. & Express.....	76	1	M to S
*Sydney-Glace Bay, N.S.....	Express.....	11.9	1	M to S
*Sydney-New Waterford, N.S.....	Express.....	13.9	1	M to S
Sydney-Port Hawkesbury, N.S....	L.C.L.....	115	1	Wed. & Sat.
Tracadie-Bathurst, N.B.....	Express.....	91	1	M to S
Truro-Bridgetown, N.S.....	L.C.L.....	142	1	Saturday
Truro-New Glasgow, N.S.....	L.C.L.....	89	1	M to F
Truro-Springhill Jet., N.S.....	L.C.L.....	87	1	Tue. & Fri.
Yarmouth-Shelburne, N.S.....	L.C.L.....	88	1	M to F

CENTRAL REGION

Between	Class of Traffic	Mileage One Way	Round Trips Per Day	Service Frequency
*Allandale-Camp Borden, Ont.....	Express.....	14	2	M to S
*Allandale-Owen Sound, Ont.....	Express.....	75.6	1	M to F
Belleville-Pictou, Ont.....	L.C.L.....	22	1	M to F
*Brockville-Prescott, Ont.....	Express.....	12.6	2	M to S
Cobourg-Port Hope, Ont.....	L.C.L.....	8	1	M to F
*Coteau-Valleyfield, Que.....	Express & Mail.....	8	3 (5)	M to F (Sat)
Fort William-Longlac, Ont.....	Exp., Baggage & Mail.....	182	1	Daily
*Galt-Guelph-Hespeler-Preston...	Express.....	17.5	1	M to S
Geraldton-Longlac, Ont.....	L.C.L.....	25	1	M to F
*Hamilton-Dundas, Ont.....	Express.....	7	2	M to S
Hamilton-Caledonia-Port Dover- Port Rowan, Ont.....	L.C.L. & Express.....	74	1	M to S
Hamilton-Dunnville-Simcoe, Ont.	Express & Baggage.....	76	1	M to S
*London-Simcoe, Ont.....	Express.....	73.5	1	M to S
*Montreal-Abbotsford, Que.....	Express.....	38	1	M to F
*Montreal-Dominion, Que.....	Express.....	8.9	2 (1)	M to F (Sat)
*Montreal-Huntingdon, Que.....	Express.....	54.5	1	M to F
*Montreal-Joliette-Grand Mere...	Express.....	114	1	M to F
*Montreal-Montreal Airport, Que...	Express.....	12.5	7	Daily
*Montreal-Pointe Claire, Que.....	Express.....	15.1	1	M to F
*Montreal-Quebec, Que.....	Express.....	169	1	S to F
*Montreal-Rawdon, Que.....	Express.....	55.7	1	M to S
*Montreal-Riviere Beaudette, Que.	Express.....	96.5	1	M to F
*Montreal-St. Lambert, Que.....	Express.....	5.6	1	M to S
*Montreal-St. Laurent, Que.....	Express.....	6.2	2 (1)	M to F (Sat)
*Montreal-Three Rivers, Que.....	Express.....	103.8	1	M to S
*Montreal-Valleyfield-Huntingdon- St. Martin, Que.....	Express.....	118	1	Saturday
*Montreal-Victoriaville, Que.....	Express.....	129	1	M to S
Napanee-Forfar-Ottawa, Ont.....	L.C.L. & Express.....	156	1	M to F
*Niagara Falls-Fort Erie, Ont.....	Express.....	22.5	2	M to S
Oshawa-Bowmanville, Ont.....	L.C.L.....	9	1	M to S
Oshawa-Whitby-Port Perry, Ont...	L.C.L. & Express.....	20	1	M to F
*Pembroke-Eganville, Ont.....	Express.....	13	1	M to S
Pictou-Bellefleur, Ont.....	Express & Royal Mail.....	22	1	M to S
Port Arthur-Red Rock, Ont.....	L.C.L.....	65	1	M to F
*Richmond-Quebec, Que.....	Express.....	115	1	M to S
St. Catharines-Fonthill-Welland- Port Colborne, Ont.....	L.C.L., Bgge. & Exp.....	24.3	3	M to S
*St. Johns-Montreal, Que.....	Express.....	26	1	M to S
*Sarnia-Parkhill, Ont.....	Express.....	58	1	M to F
*Sherbrooke-Coaticook, Que.....	Express.....	25	1	M to S
*Simcoe-Brantford, Ont.....	Express.....	24	1	M to S
*Toronto-Bowmanville, Ont.....	Express.....	44.5	1	M to S
*Toronto-Malton Airport, Ont.....	Express.....	19	8	Daily
*Toronto-Malton, Ont.....	Express.....	21	2	M to S
*Toronto-Richmond Hill, Ont.....	Express.....	15	2	Daily
*Windsor-Kingsville, Ont.....	Express.....	28.4	1	M to S

WESTERN REGION

Between	Class of Traffic	Mileage One Way	Round Trips Per Day	Service Frequency
*Edmonton-Edson, Alta.....	Express.....	215.1	1 way	each day
*Edmonton-Grande Centre, Alta...	Express.....	240.4	1	M to S
*Edmonton-Lloydminster, Alta...	Express.....	187.5	1	M to S
*Kamloops-Kamloops Jet., B.C....	Express.....	5	4	M to S
North Battleford-Battleford, Sask.	L.C.L. & Express.....	3.8	1	M to F
Regina-Weyburn, Alta.....	L.C.L. & Express.....	73	1	M to S
The Pas-Flin Flon, Man.....	L.C.L.....	92	1	M to F
*Vancouver-New Westminster, B.C.	Express.....	12	1	M to S
*Vancouver-Pt. Mann, B.C.....	Express.....	16	1	M to S
Winnipeg-Gypsumville, Man.....	L.C.L. & Express.....	162	1	T W F & S

NOTE: One-Way Mileage shown above is the distance covered in servicing the intermediate and terminal stations and not necessarily the direct highway distance between the terminals of the runs.

In all cases these services are operated either ancillary to or in substitution of train service.

C.N.R.—CANADIAN LINES

COMPARISON OF EMPLOYMENT LEVELS FOR THE PERIOD 1954-1958 BY EMPLOYEE GROUP

Employee Group	Year				
	1958	1957	1956	1955	1954
All Employees.....	104,103	114,750	116,324	109,094	111,601
% of Total.....	100.0	100.0	100.0	100.0	100.0
General.....	18,022	18,782	18,746	18,245	18,527
% of Total.....	17.3	16.4	16.1	16.7	16.6
Way and Structures.....	20,322	22,636	23,086	20,170	20,376
% of Total.....	19.5	19.6	19.8	18.5	18.2
Equipment.....	21,236	24,972	26,254	24,912	27,074
% of Total.....	20.4	21.8	22.7	22.8	24.3
Transportation (Non-Train).....	12,450	13,625	13,655	14,096	13,896
% of Total.....	12.0	11.9	11.7	12.9	12.5
Transportation (Train).....	16,882	18,664	18,769	16,220	16,144
% of Total.....	16.2	16.3	16.1	14.9	14.5
Communications.....	5,829	6,237	6,017	5,750	5,490
% of Total.....	5.6	5.4	5.2	5.3	4.9
Express.....	5,995	6,329	6,325	6,247	6,261
% of Total.....	5.8	5.5	5.4	5.7	5.6
Highway Transport (Rail) and Outside Operations.....	3,367	3,505	3,472	3,454	3,833
% of Total.....	3.2	3.1	3.0	3.2	3.4

February 19, 1959.

HOUSE OF COMMONS

CA1 XC 15
-R17
Second Session—Twenty-fourth Parliament

1959

SESSIONAL COMMITTEE

ON

RAILWAYS, AIR LINES AND SHIPPING

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

including

SECOND REPORT TO THE HOUSE

THURSDAY, MAY 7, 1959
(afternoon)

TRANS-CANADA AIR LINES

Annual Report for 1958—Auditor's Report to Parliament
for 1958—Capital Budget for 1959

WITNESSES:

Mr. G. R. McGregor, President, Trans-Canada Air Lines; assisted by
Messrs. H. W. Seagrim, Vice President; W. S. Harvey, Comptroller;
R. C. MacInnes, Director, Public Relations; S. W. Sadler, Assistant
Comptroller; and Leo Palmer, Public Relations Manager, (Ottawa)

*(Proceedings relating to the Canadian National Railways appear in
Issues Nos. 1 and 2)*

SESSIONAL COMMITTEE
on
RAILWAYS, AIR LINES AND SHIPPING

Owned and controlled by the Government

Chairman: Hon. W. Earl Rowe

Vice-Chairman: Yvon R. Tassé
and Messrs.

Badanai	Drysdale	McWilliam
Bourbonnais	Fisher	Mitchell
Brassard (<i>Lapointe</i>)	Fraser	Monteith (<i>Verdun</i>)
Broome	Granger	Pascoe
Chevrier	Horner (<i>Jasper-Edson</i>)	Robinson
Chevrier	Kennedy	Smallwood
Chown	Martini	Smith (<i>Calgary South</i>)
Creaghan	McPhillips	Smith (<i>Simcoe North</i>)

J. E. O'Connor,
Acting Clerk of the Committee.

SECOND REPORT TO THE HOUSE

TUESDAY, May 12, 1959.

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government has the honour to present its

SECOND REPORT

In accordance with the Orders of Reference of Wednesday, April 29, 1959, your committee has considered Items 410, 411 and 419 as listed in the Main Estimates for the year ending March 31, 1960, as follows:

410—Prince Edward Island Car Ferry and Terminals ..	\$1,741,000
411—Newfoundland Ferry and Terminals	4,738,000
419—Maritime Freight Rates Act	14,100,000

Your Committee has approved the said Estimates.

Your Committee has also considered the Capital Budget and the Estimated Income Account for the year 1959 of the Canadian National Railways as well as the Capital Budget and the Property and Equipment Budget for the year 1959 of Trans-Canada Air Lines.

Your Committee approves the said Budgets.

A copy of the Minutes of Proceedings and Evidence is appended.

Respectfully submitted,

W. EARL ROWE,
Chairman.

(Presented this day by Mr. Tassé, Vice-Chairman)

ORDERS OF REFERENCE

WEDNESDAY, April 29, 1959.

Ordered,—That a Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government, be appointed to consider the accounts, estimates and bills relating to the Canadian National Railways, the Canadian National (West Indies) Steamships and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records, and to report from time to time; and that, notwithstanding Standing Order 67 in relation to the limitation of the number of members, the said Committee shall consist of 26 members.

WEDNESDAY, April 29, 1959.

Ordered,—That the Sessional Committee on Railways, Air Lines and Shipping consist of Messrs. Badanai, Bourbonnais, Brassard (*Lapointe*), Broome, Carter, Chevrier, Chown, Creaghan, Drysdale, Fisher, Fraser, Granger, Grills, Horner (*Jasper-Edson*), Kennedy, McPhillips, McWilliam, Martini, Mitchell, Monteith (*Verdun*), Pascoe, Robinson, Rowe, Smallwood, Smith (*Simcoe North*), and Tassé; and that the Annual Reports for 1958 of the Canadian National Railways, Canadian National (West Indies) Steamships Limited, Canadian National Railways Securities Trust, Auditors' Report to Parliament in respect of the Canadian National Railways and Canadian National (West Indies) Steamships Limited, tabled on April 14; the Annual Report of Trans-Canada Air Lines for 1958, the Auditors' Report to Parliament on Trans-Canada Air Lines for 1958, tabled on April 10; and the budgets for 1959 of the Canadian National Railways, Canadian National (West Indies) Steamships Limited, and Trans-Canada Air Lines, tabled on April 20, be referred to the Sessional Committee on Railways, Air Lines and Shipping; and that items numbered 410 Prince Edward Island Car Ferry and Terminals; 411 Newfoundland Ferry and Terminals; and 419 Maritime Freight Rates Act, as listed in the Main Estimates of 1959-60, be withdrawn from the Committee of Supply and referred to the said Committee, saving always the powers of the Committee of Supply in relation to the voting of public moneys.

MONDAY, May 4, 1959.

Ordered,—That the quorum of the Sessional Committee on Railways, Air Lines and Shipping be set at 10 members; that the said Committee be empowered to sit while the House is sitting; that the said Committee be authorized to print, from day to day, 1000 copies in English and 250 copies in French of its Minutes of Proceedings and Evidence, and that Standing Order 66 be suspended in relation thereto.

Attest.

Léon J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

AFTERNOON MEETING

(8)

The Committee met at 3.30 p.m. this day. The Chairman, the Honourable Earl Rowe, presided.

Members present: Messrs. Broome, Carter, Chevrier, Creaghan, Fisher, Fraser, Granger, Horner (*Jasper-Edson*), Martini, McPhillips, Mitchell, Pascoe, Rowe, Smith, (*Calgary South*), Smith (*Simcoe North*) and Tassé—(16).

In attendance: Mr. G. R. McGregor, President, Trans-Canada Air Lines, assisted by. Messrs. H. W. Seagrim, Vice-President, Operations; Mr. W. S. Harvey, Comptroller; R. C. MacInnes, Director of Public Relations; S. W. Sadler, Assistant Comptroller and Leo Palmer, Public Relations Manager, Ottawa.

The Chairman introduced Mr. McGregor and members of his staff, and called for consideration the Annual Report of the Trans-Canada Air Lines for 1958.

Following discussion and the questioning of Mr. McGregor, the Report was adopted on the motion of Mr. Broome, seconded by Mr. Pascoe.

On the motion of Mr. Drysdale, seconded by Mr. Creaghan, *Resolved*,—That information concerning passenger boarding be supplied only to Members requesting it.

The Auditors' Report to Parliament with respect to Trans-Canada Air Lines for the year ended December 31, 1958 was called, considered, and adopted on the motion of Mr. Chown, seconded by Mr. Chevrier.

On motion of Mr. Drysdale, seconded by Mr. Chown, the Capital Budget of Trans-Canada Air Lines, 1959 was adopted.

At 5.15 p.m. the Committee adjourned to the call of the Chair.

J. E. O'Connor,
Acting Clerk of the Committee.

EVIDENCE

THURSDAY, May 7, 1959.

The CHAIRMAN: Gentlemen, I see a quorum. We have with us, on my immediate right, the president of Trans-Canada Air Lines, Mr. Gordon R. McGregor; and in the following order Mr. H. W. Seagrim, Vice-President, Operations; Mr. W. S. Harvey, Comptroller; Mr. R. C. MacInnes, Director of Public Relations, and Mr. S. W. Sadler, Assistant Comptroller. You have before you the Annual Report of T.C.A. for 1958.

Mr. CARTER: Mr. Chairman, I suggest we take that report as read. I think we have all had a chance to read it. We could take the report as read, and save time.

The CHAIRMAN: Are you moving its adoption?

Mr. McPHILLIPS: No.

Mr. CARTER: I was suggesting that we take the report as read, and I would ask that it be entered in the minutes as having been read, instead of taking the president's time in reading it.

The CHAIRMAN: That is all right. The Honourable Mr. Chevrier, the other day—in the other matter—suggested another way. It was the committee's idea that we take the Railways report as read. We might proceed faster if we take it as read.

Mr. CHEVRIER: I think there is a distinction between the two. While I think that applied to C.N.R., I do not think it applies to T.C.A., and I would be willing to go along with Mr. Carter's suggestion. Perhaps we could just direct questions to Mr. McGregor.

The CHAIRMAN: It is a very good report, and I do not think there should be very many questions. We could probably adopt it just as quickly as we could read it.

Mr. BROOME: That means, Mr. Chairman, we can ask general questions on the report?

The CHAIRMAN: Oh, yes. In fact, it puts it more general than the other way.

I would like, if we could, to keep it in some order. Mr. McGregor is here to answer questions. You will see on the first page the revenues and income.

To the Honourable,
The Minister of Transport, Ottawa.

Sir:

The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1958.

FINANCIAL

Operations in 1958 resulted in a net income of \$547,429.

Total revenues rose by 15% to \$120,554,769. This rate of growth is typical of recent years. Traffic growth started slowly in 1958 and recovered momentum as the year progressed.

Passenger revenues represented 84% of the total and increased by 17% over 1957. The average rate per passenger mile which the airline received for passenger transportation was similar to that of 1957 when computed on

the same mileage basis. Significant fare reductions were offered on the North American Tourist and North Atlantic Economy services, offset by increases in the more expensive North Atlantic classes of service and in transborder fares, the latter occasioned by a rise in United States airlines' tariffs.

ANNUAL REPORT

Montreal, February 18, 1959

The passenger load factor declined from 70.7% to 69.3%. A reduction of this order has a powerful downward influence on net income but was part of the planned service improvement announced three years ago and implicit in the 1958 operating budget.

Mail revenues advanced only slightly to \$9,893,622. The effect on revenue of a 5% increase in volume was diluted by the declining return per ton mile which is a condition of the present TCA air mail contract in Canada. Revenues from air express and air freight approximated the 1957 levels.

Operating expenses totalled \$118,040,783, an increase of 14% over 1957.

The increased proportion of modern aircraft in the fleet contributed to lower fuel and direct maintenance costs relative to the ton miles produced. On the other hand, the price of modernization was paid in higher depreciation charges and in interest on borrowed capital.

Because of the growth in the airline's activity, the average number of employees increased by 5.7%, while the average annual wage rose 7%. As a result, wages and salaries increased 13% to a total of \$50,524,435 in 1958, and this was accompanied by rising employee benefits. Salaries and wages accounted for 43% of the total operating expenses.

Capital expenditures during the year amounted to \$33,900,000, of which \$31,300,000 represented payments associated with aircraft and spare parts.

SERVICE AND TRAFFIC GROWTH

TCA increased its passenger carrying capacity by 20% in 1958 and provided over two billion available seat miles of transportation. This planned extension of the airline's activity was accomplished by the introduction of additional aircraft, by route innovations, and by many increases in flight frequencies. The enlarged capacity was more than sufficient to accommodate the accurately forecast growth of 17% in passenger traffic.

During the months of greatest public requirement TCA operated eleven daily trans-continental flights in each direction, constituting approximately 650 round trip seats. In accordance with the Company's long-range plans, a third Super Constellation transcontinental flight was introduced, incorporating for the first time, nonstop service between Edmonton and Toronto. Other new direct services were begun between Calgary and Saskatoon, Toronto and Moncton, and Montreal and Halifax.

TCA, the pioneer user of propeller turbine aircraft in North America, extended Viscount service to twelve more Canadian communities: Sault Ste. Marie, Sudbury, North Bay, Timmins, Earlton, Rouyn-Noranda, Val d'Or, Sydney, Stephenville, St. John's and Gander. Operations to Kapuskasing were discontinued due to the inability of the airport at that point to accommodate the new and larger aircraft. A substitute service was, however provided by a local carrier.

When, in July, surface transport was temporarily suspended between Vancouver Island and the Mainland, TCA organized an emergency air lift. A total of 350 flights were operated during one five-day period for the carriage of 11,500 passengers.

The Company broadened its international route pattern to include Belgium, Switzerland, and the island of Antigua in the West Indies. Nonstop flights were begun between Montreal and Paris, directly linking the two largest

French speaking cities of the world. Of particular interest to Western Canadians was a new and shorter trans-Atlantic operation between Vancouver and London, with an enroute stop at Winnipeg.

Fifteen weekly flights in each direction, aggregating 1,000 round trip seats, were scheduled across the Atlantic during the period of peak summer traffic.

On January 1st, and in spite of the general rise in the price of goods and services, TCA lowered its domestic Tourist class fares by up to 20%. This action, made possible by the economies associated with the greater traffic volume, came at a time when major airlines in the United States had been granted an interim 6½% fare increase and were seeking more. The average level of TCA fares is now approximately the same as that applying in the United States, even though the cost of airline operations in Canada is substantially higher. In 1958 TCA also extended the Pay Later Plan to its domestic services.

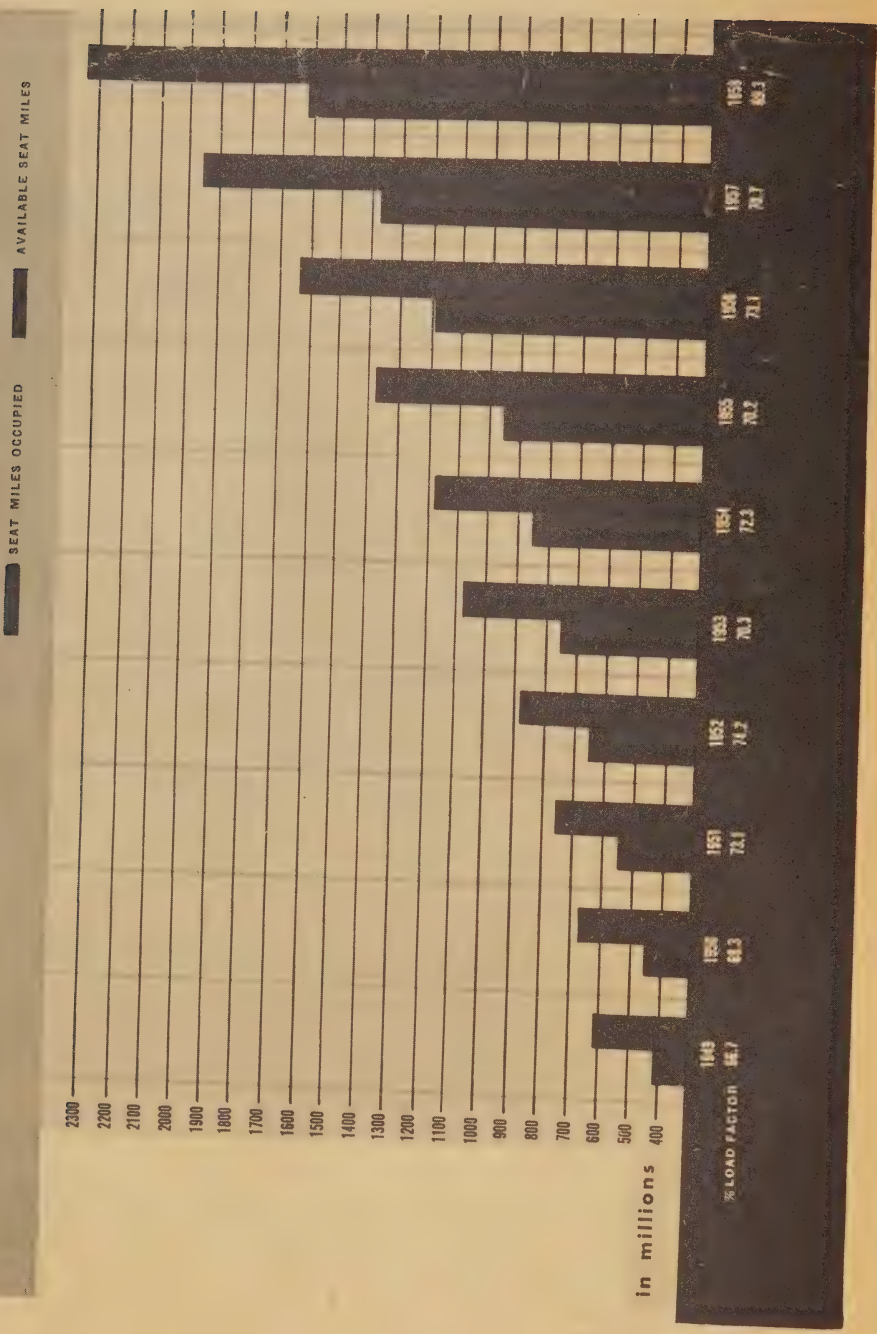
In concert with other international carriers, the Company introduced an Economy class fare for overseas travel. So popular did this low cost service prove, that TCA withdrew all Tourist class seating from its Atlantic aircraft and expanded its Economy class accommodation.

Throughout the year, an aggressive sales effort supported the Company's operations. In 1958 TCA was acknowledged by United States judges the best transportation advertiser in North America, winning in competition with 200 other companies.

A large capacity for the air carriage of freight and express was made available to shippers. TCA operated a scheduled transcontinental air cargo service with North Star freighters, each capable of carrying nine tons of commodities and next-day delivery was offered to points within a 1,500-mile radius and second-day delivery to points beyond. Unfortunately, only a small proportion of the capacity was utilized within Canada, due principally to the comparative scarcity of West to East commodity traffic. Every effort was made, however, to combat this situation by promotional activity and by the introduction of special commodity rates. While the directional traffic imbalance remained severe in 1958, there was some indication of improvement. Trans-Atlantic air cargo traffic was again heavy.

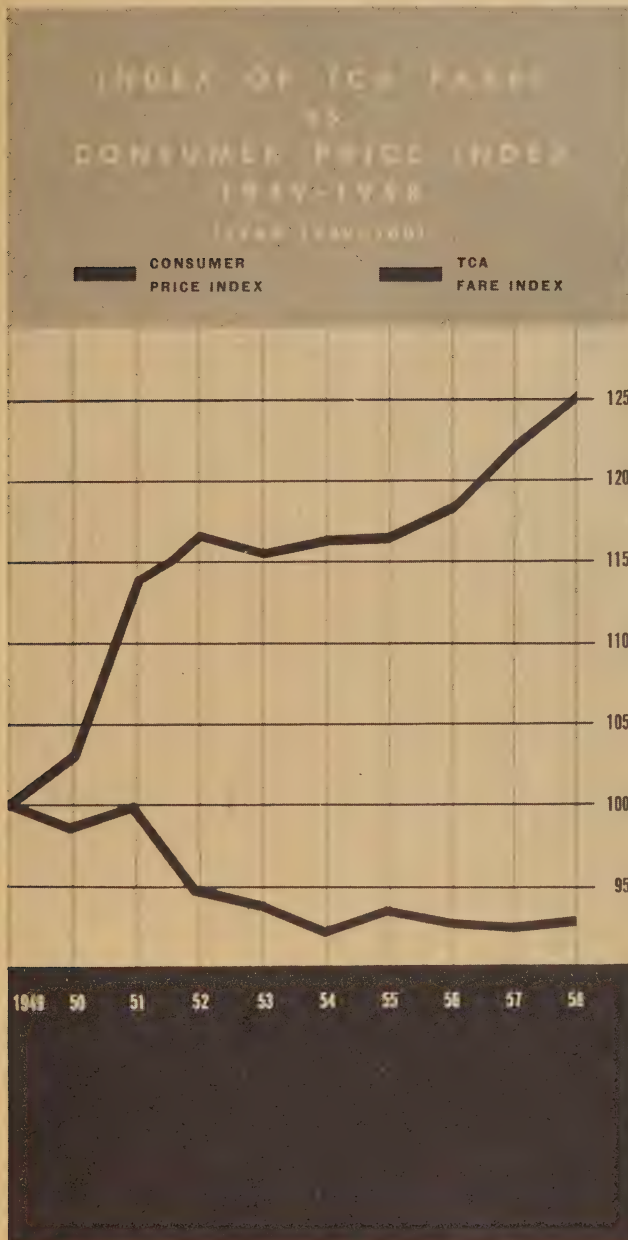
TCA carried First Class mail throughout its domestic routes wherever air transport offered faster delivery. Close co-operation between the airline and the Post Office Department continued to assure Canadians of one of the world's most advanced mail transportation systems. While aggregate mail revenue rose, there was a further decrease, under the Company's contract, in the unit payment received for the transportation provided. This steady trend of past years is illustrated on page 12.

By the close of 1958, TCA routes, domestic and international, totalled 31,544 unduplicated miles and service being provided within Canada and to the United States, the British Isles, France, Belgium, Germany, Switzerland, Bermuda, and the islands of the Caribbean. As a national carrier the airline operated to communities both small and large. Of the 38 Canadian centres served, 25 had a population of less than 100,000 and 11 of these had less than 25,000 population.



EQUIPMENT AND FACILITIES

Another fifteen propeller turbine Viscounts and an additional Super Constellation were put into service in 1958, while nine more DC-3s were retired. At year end, the airline's fleet in service, consisting of 46 Viscounts, 12 Super Constellations, 21 North Stars and 9 DC-3s, was almost entirely four engined and largely turbine powered. Twelve surplus DC-3s were sold, nine of them to a United States operator.



One Viscount was destroyed on the ramp at New York in November when it was struck by an aircraft belonging to another carrier. There were no injuries to passengers.

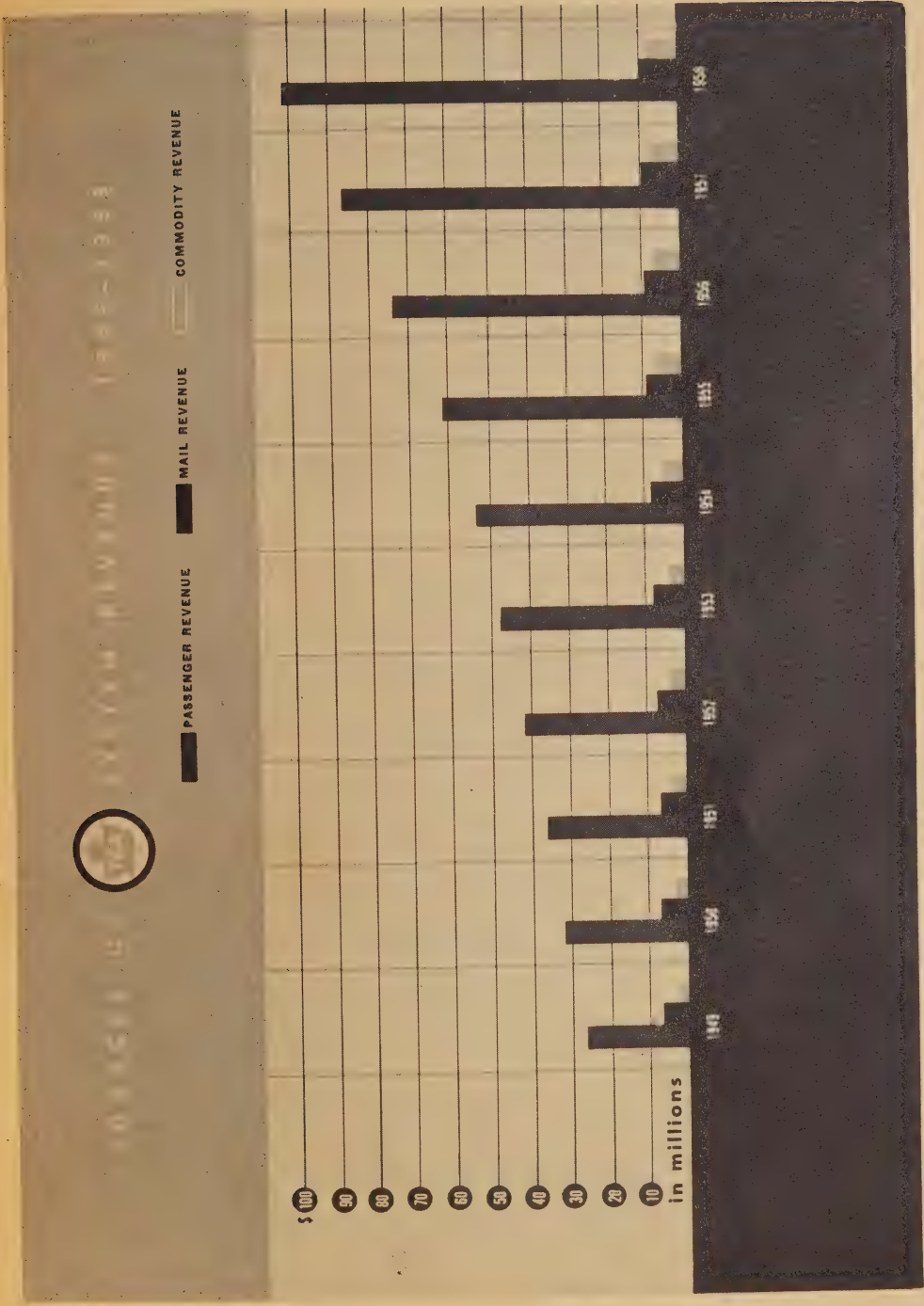
The installation of weather radar neared completion on the Company's Super Constellations and was more than half finished on the Viscounts at year end. This equipment, by enabling pilots to avoid weather disturbances, assures passengers of smoother, more comfortable flight.

The Company's insistence upon the highest standards of aircraft engineering, maintenance and overhaul was reflected in another year of efficient operation. Of the more than 48,800,000 aircraft miles scheduled, over 97% were operated.

TCA offices, shops and hangars were well staffed, equipped and maintained. Where required by the greater traffic volume and increased scale of operations, facilities were enlarged.

In the latter half of the year work progressed rapidly on the Company's new \$20,000,000 maintenance and overhaul base at Dorval. Designed specifically for the care of the large turbine powered aircraft, this facility, incorporating hangars, shops and stores area, will be the first of its kind in commercial aviation.

The Department of Transport's extensive airport and airway development program contributed to the general improvement of service to the public. Of particular significance were the provision and planning of new airport terminal buildings, runway construction and the installation of advance navigational aids. As in the past, TCA and the Department co-operated closely to the advantage of air transportation.



PERSONNEL

The airline's staff numbered 10,043 at the end of 1958. To a greater extent than is usual in most industries, these represented skilled specialists and technicians, the great majority with years of air transportation experience.

TCA believes that its working force, in areas of experience and training, is at least the equal of any group in the industry. It is indicative that an increase of 5.7% over 1957 in the average number of employees was accompanied by a rise of 14% in ton miles of available transportation provided.

New staff were carefully selected and Company-wide training programs had, as their objective, efficient and intelligent performance in all airline departments.

TCA continued to enjoy healthy industrial relations with its employees.

It was with the most profound regret that the airline accepted the resignation from its Board of Directors of the Honourable H. J. Symington, C.M.G., Q.C.. Associated with TCA since its inception, Mr. Symington has been a member of the Board for the past twenty-one years and was President of TCA from 1941 to 1947. No one has contributed more to the organization and development of the Company that will always bear the stamp of his wisdom and personality.

In December, Mr. E. W. Bickle was elected to the Board of Directors.

PLANNING

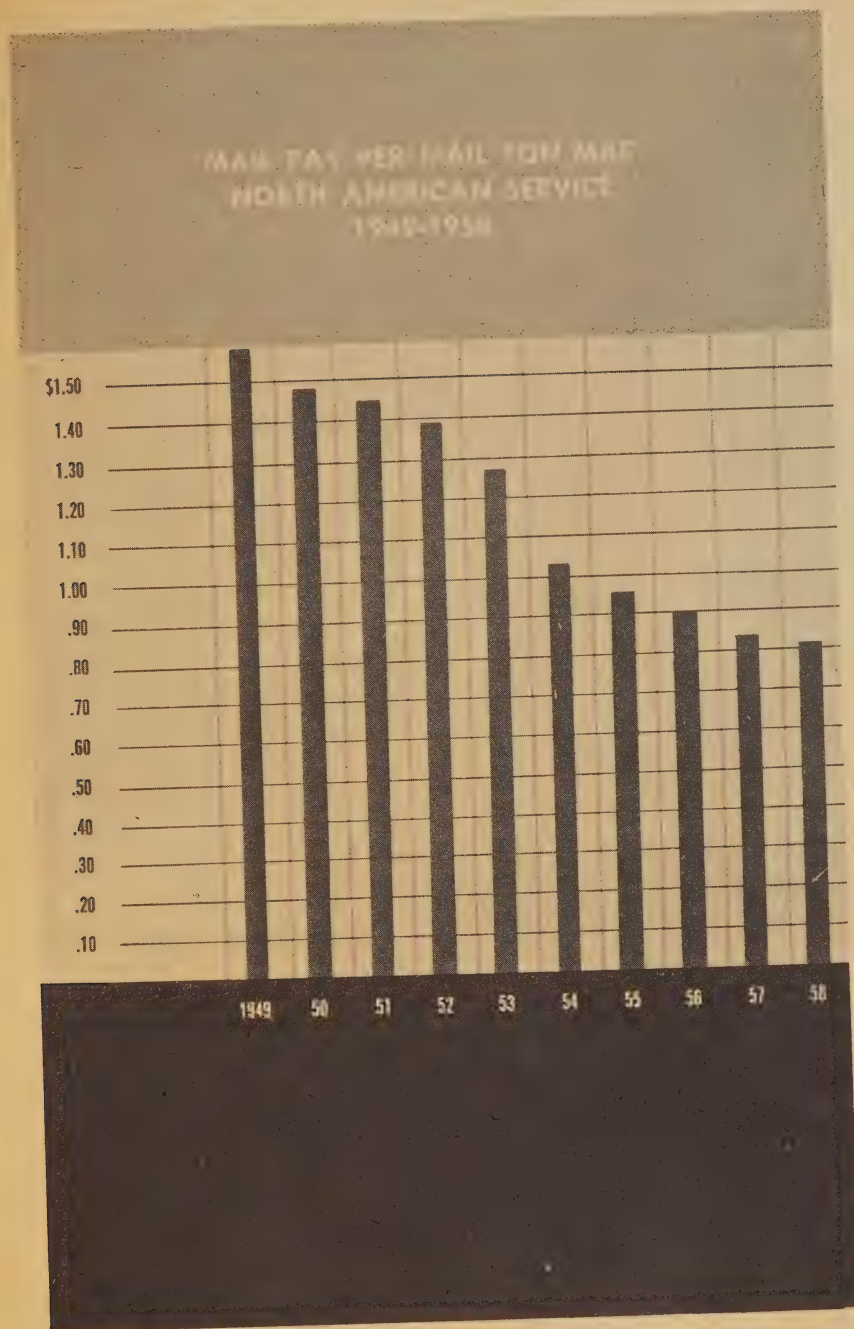
The Company anticipates in 1959 a further growth of the popularity of air transportation and will increase its capacity to meet this requirement. As in the past, there will be a continuation of the airline's policy of upgrading flight frequencies and equipment on many of its domestic routes. Internationally TCA will begin flights to Vienna on May 1 and the airline is prepared for other overseas route extensions of value to Canada.

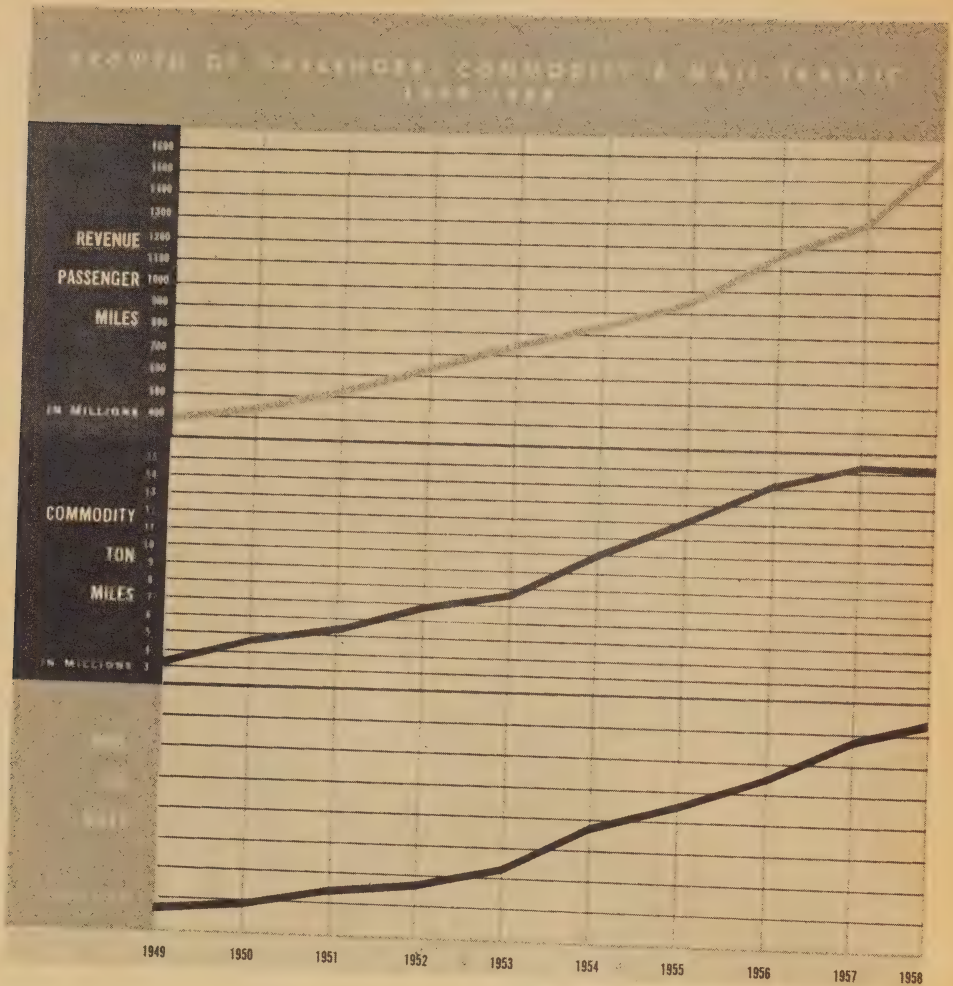
Four more Viscounts and another Super Constellation will be delivered, considerably increasing the airline's transportation capacity.

From a board viewpoint, 1959 will be a period of transition and of intensive preparation for the arrival of the large jet aircraft to enter service in 1960. Delivery of the first of the Company's 550 m.p.h. Douglas DC-8s is expected late in the current year. With accommodation for up to 127 passengers, they will cut flying times on the transcontinental and trans-Atlantic services by almost half. Their size, speed and nature of propulsion require major revisions to established airline techniques. The potential of the big jets for public service and for earning ability is immense but so are the problems associated with their introduction and economic operation. The entire airline organization will, in 1959, be completing a seven-year preparation for this major technological change.

Also within sight are the Vickers Vikings, 420 m.p.h. propeller turbine aircraft to be delivered in 1960 and to enter Company service in 1961. Seating approximately 100 passengers, they will operate on TCA's high density inter-city and Southern routes. Twenty Vikings are on order and these, combined with the long range DC-8s and the short range Viscounts, will give TCA an all four engined, turbine powered fleet, probably the first in the air transportation industry.

Production of both the DC-8 and Viking was well advanced in 1958 with the former undergoing exhaustive and highly satisfactory flight tests. The Viking has since successfully completed its maiden flight.





At the end of 1954, immediately prior to the commencement of the Company's turbine conversion program, the capital cost of the TCA fleet was \$42,000,000. Today, with more than one half of the fleet consisting of turbine aircraft, it is \$102,000,000 and by 1961, with the turbine program completed, it will be \$190,000,000, on the basis of orders already placed.

Work will soon begin at Vancouver on new maintenance and hangar quarters valued at \$5,000,000. These too have been specifically designed for the servicing of turbine powered aircraft.

Final design and testing of an electronic reservations system is nearing completion, but manufacture and installation will not be finished for another two years. There is every expectation that it will fully meet the public requirement for immediate and accurate reservations handling in an era of growing airline traffic and swift turbine flight.

TCA's planning for the new dimensions of air transportation, implicit in the advanced types of aircraft now nearing delivery, is of several years duration. The realities of Canadian distances, population distribution, climate and economic life have, from the first, governed the Company's decisions. TCA

believes that in a time of revolutionary change in civil aviation, it will be able to offer a standard of domestic and international flight comparable with any in the world.

TCA's work in 1958 and its expectations for the future are both reflections of the skill and dedication of its staff. The Board of Directors take this opportunity to express their appreciation to the Company's personnel at home and abroad.

For the Directors,

G. R. MCGREGOR,
President.

Capital Commitments and Contingent Liabilities	
Balance of payments for equipment and construction under contract	\$106,000,000
Notes under discount with the bank in connection with the Pay Later Plan	1,744,000

W. S. HARVEY,
Comptroller.

GEORGE A. TOUCHE & Co.
Chartered Accountants
Auditors.

This is the balance sheet referred to in our report to the Minister of Transport, dated February 13, 1959

STATEMENT OF INCOME

	1958	1957
Operating Revenues		
Passenger	\$101,553,258	\$ 86,523,981
Mail	9,893,622	9,662,585
Air Express and Freight	6,536,017	6,392,156
Excess Baggage	977,494	893,968
Charter	490,594	280,155
Incidental Services—Net	1,103,784	1,242,862
Total	\$120,554,769	\$104,995,707
Operating Expenses		
Flying Operations	\$ 26,143,144	\$ 23,837,126
Maintenance	30,500,636	28,721,065
Passenger Service	7,982,693	6,452,870
Aircraft and Traffic Servicing	22,438,282	19,090,650
Sales and Promotion	16,887,670	15,036,818
General and Administrative	4,177,309	3,541,824
Total	\$108,129,734	\$ 96,680,353
Income from Operations	\$ 12,425,035	\$ 8,315,354
Provision for Depreciation	9,911,049	6,819,160
Non-Operating Income—Net	\$ 2,513,986	\$ 1,496,194
	529,029	599,299
Income Before Interest Expense	\$ 3,043,015	\$ 2,095,493
Interest on Capital Invested	2,495,586	1,690,819
Net Income	\$ 547,429	\$ 404,674

NOTE:—Consistent with the provisions of the Income Tax Act, the Airline intends to claim capital cost allowance (depreciation) sufficient to offset the taxable income.

AUDITORS' REPORT

To The Honourable The Minister of Transport,
Ottawa, Canada.

We have examined the books and accounts of Trans-Canada Air Lines for the year ended December 31st, 1958. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and related statement of income are properly drawn up so as to give a true and fair view of the state of the Corporation's affairs at December 31st, 1958, and of the results of its operations for the year then ended, according to the best of our information and the explanations given to us, and as shown by the books of the Corporation. In our opinion the statements are prepared on a basis consistent with that of the preceding year.

We further report that in our opinion proper books of account have been kept by the Corporation, and the transactions of the Corporation that have come to our notice have been within the powers of the Corporation.

We are also submitting a supplementary explanatory report.

George A. Touche & Co.
Chartered Accountants.

February 13th, 1959.

Mr. CHEVRIER: May I ask a question here that arises under the heading of "Financial". I think the committee will be happy to learn that there is another small surplus in T.C.A. Is there anything the president can suggest to the committee that would increase the surplus, either through domestic operations or overseas operations?

Mr. G. R. MCGREGOR (*President, Trans-Canada Air Lines*): Mr. Chevrier, I think the basic function of T.C.A., as I understand it, is not necessarily to have large profits. We have always operated under the policy that any threat of large profits, after paying the required return on the capital invested in the enterprise, would take the form of fare reductions.

This policy was implemented again on January 1st, 1958, when the tourist fares were reduced, by about 20 per cent on an average, and it was our hope that we would be able to put in another general fare reduction on January 1, 1960. The effect of the dilution of the airlines' revenues with respect to the trans-continental services will, I think, make that impossible. But that has been the policy throughout the company's corporate life, and I think it is a proper one and should be followed.

I do not see why the airline should strive to make profits as profits; I think it should strive to keep its expenses at the lowest possible practical level and relate the fares to that level of expense.

Mr. CHEVRIER: What effect, if any, do you think the decision of the Air Transport Board, authorizing this once-weekly service of C.P.A. from Montreal to Vancouver, will have on the financial position of T.C.A.?

Mr. MCGREGOR: May I correct that, Mr. Chevrier. It is not once-weekly; it is once-daily, both ways.

Mr. CHEVRIER: I am sorry; once-daily.

Mr. MCGREGOR: I have forecast the effect on T.C.A., with respect to the period May 4 to December 31, 1958, as being a diversion of T.C.A. revenue in the amount of \$3,762,000. That, with respect to a full year of operation, would go up to \$5,150,000.

Perhaps I could answer your question a little more fully, Mr. Chevrier. These figures, of course, are very substantial and they make the obvious difference between a net surplus and a deficit. If Mr. Chevrier would like, either now or later, I could take him through the calculations, which are based on the seat miles which are scheduled—a quite low percentage of occupancy of those seat miles—and the application of the known fare.

So the only variable that we may consider to be in these estimates is the percentage of occupancy, which we have forecast.

Mr. CHEVRIER: Is there no way of you recouping yourself for this loss in some other extension of services?

Mr. MCGREGOR: We would hope so, but there is very little that can be thought of, with respect to the domestic operation, that is a sound economic proposition, or I think it would have been done in the past.

We would expect that the gradual expansion of international operations would lead us back into what we would hope would be a surplus position.

Mr. CHEVRIER: I want to ask you about that again, but I think I should allow somebody else to ask questions now.

Mr. BROOME: Your report shows that between 1957 and 1958 there was a growth of 35 per cent in net income and a growth of 15 per cent in revenues. Are you not ignoring entirely the normal growth aspect of this matter when you make that reply to Mr. Chevrier?

Mr. MCGREGOR: Not at all. The normal growth that has taken place—which has been an average of 15 to 17 per cent in past years—tends to offset the steady increase in the cost of labour and materials, which all go into the cost of the product.

Mr. BROOME: On that same question of cost, I did notice in your report the statement that the average level of T.C.A. fares is now approximately the same as that in the United States, even though the cost of airline operation in Canada is substantially higher. In what areas are your costs higher than in the United States? I believe that wages in Canada are lower, but your landing fees are higher. Is that statement substantially correct? I doubt it.

Mr. MCGREGOR: Yes, it is entirely correct.

Mr. BROOME: Are there any figures on it?

Mr. MCGREGOR: Yes, there are complete figures; but probably the best example—and this is one of our main items of cost—is in connection with fuel. Fuel in Canada costs us an average of about 40 per cent more than it costs in the States. We buy fuel in the United States, of course, at the points where we land, and I have a very definite record of the difference that exists. It was calculated a year or so ago that if we could buy our fuel in Canada at the same price we pay for it in New York, the difference in operating costs to the airline would be in the order of \$2 million.

Mr. BROOME: Does that apply to the new type fuels used in your turbine aircraft?

Mr. MCGREGOR: Not to the same extent as the high octane gasolines.

Mr. BROOME: The difference is small on that. Therefore, that cost differential is closing in more, bringing a difference?

Mr. MCGREGOR: Turbine fuel is about 10 per cent higher in Canada.

The CHAIRMAN: Any other questions?

Mr. FRASER: Did Mr. McGregor say that was \$3 million gross or \$3 million net?

Mr. MCGREGOR: I said diversion of gross revenue—at least I said diversion of revenue and I meant gross revenue.

Mr. FRASER: Then that would be offset to some extent by maintenance?

Mr. MCGREGOR: No, I am afraid not, Mr. Fraser, because it was not possible at the time the decision was made, at least with respect to 1959, to make any reasonable reduction in the operations of T.C.A. in the light of this licensed C.P.A. flight. Furthermore, it was not our understanding that it was the intention that because this flight was granted—and you will remember on the basis of the ruling primarily to connect the Canadian Pacific Airlines' international overseas operations—that T.C.A. should end up by dropping a flight in response to the C.P.A. flight.

Mr. BROOME: Well, on that same point I have heard certain criticisms in the west that the minute C.P.A. put on that flight as a sort of accommodation, the T.C.A. immediately, being smart operators, put a competing tourist service on, and there was not that type of tourist flight available.

Mr. MCGREGOR: It have heard the same comment. It is not correct. As I explained at the C.P.A. hearing, the T.C.A. operating plan with respect to 1959 was finalized in 1958 as it always is with respect to each year. We did not know what the decision was going to be. We stated what the operating plan was going to be in 1959, during the course of the hearing. Each year we have added transcontinental flights, have been able to put in more and more non-stop and one-stop flights, and 1959 over 1958 was no exception.

Mr. BROOME: I attended those board hearings, because I was very interested, and one of the criticisms was that T.C.A. was not supplying service to that class of passenger who wished economy fares, that is, tourist fares. While you have increased them dramatically on the transcontinental service, do you propose to do that on other non-competitive services, say, Ottawa to Toronto—flights which are not transcontinental in nature and where you do not face competition?

Mr. MCGREGOR: Mr. Broome, before the hearing we had very substantial capacity for tourist service transcontinentally. All our North Star transcontinental flights were fully tourist. In addition to that we had fifteen tourist seats in each of the Super Constellation flights. So I do not think the criticism is correct. It has been the policy over the last four years to make the amount of increase of seats of the tourist category greater than first-class, because it is a more saleable product at the lower price; and this will continue.

The business of putting tourist seats on such routes as Ottawa-Toronto is rather difficult from an equipment standpoint, that is, at this particular stage in our development. The Viscount at present is not particularly well suited to use as a tourist type aircraft.

The CHAIRMAN: Any other questions?

Mr. CHEVRIER: Since we have last met, what has been the extension of your overseas activities? I see a run to Austria?

Mr. MCGREGOR: Yes.

Mr. CHEVRIER: Has there been any other extensions of your runs overseas?

Mr. MCGREGOR: Well, throughout 1958 there were extensions to both Belgium and Switzerland, and this year to Austria.

Mr. CHEVRIER: Is that done from London or is it a straight flight?

Mr. MCGREGOR: There is one direct operations between Canada and Brussels but not Canada and Zurich. In some cases they stop in London, in other cases at Paris, and in one case Dusseldorf.

Mr. CHEVRIER: May I ask one or two more questions in connection with that? Do you fly direct from Montreal to Paris?

Mr. MCGREGOR: Yes, non-stop.

Mr. CHEVRIER: I am very disturbed, and I do not mind telling you this, about the manner in which Air France is taking business from T.C.A. It is astounding to see how Montrealers and Quebecers continue to travel Air France instead of T.C.A. Is there anything that can be done by T.C.A. to offset what appears to be—perhaps wrongly, but I do not think so—a tremendous loss of business which T.C.A. should be getting for its flight direct Montreal to Paris?

Mr. MCGREGOR: You are perfectly right in your observation. This, I think, is a natural outcome of the fact that for something like two years Air France was operating a flight non-stop between Montreal and Paris and advertising it as such—"The only non-stop service." When we put the long-range tanks on the wing-tips of the Super Constellation we were then able to fly non-stop, as they were, and have been able to advertise it. There is always quite a long period when the original impression that of only Air France flying non-stop, continues in the public mind. That is the case in that particular passenger service. We are doing the best we can, from the standpoint of sales and advertising, particularly in the French-speaking area, to regain what we think should be our position.

Mr. CHEVRIER: How was the payload, for instance, 1958?

Mr. MCGREGOR: It is good. We cannot complain about the load factor.

The CHAIRMAN: Any further questions?

Mr. McPHILLIPS: Yes.

Mr. MCGREGOR: The load factors on Air France vary between 58.7 and a high of 69.5; T.C.A.'s vary between a low of 53.1 and 82. Generally speaking, our load factors are higher than theirs. The total percentage operated by carriers, that is, the whole of the transatlantic, between Canada and Europe, Air France carries eastbound 5.2 per cent, and westbound 6 per cent; T.C.A. 41.7 per cent and 35.9 per cent.

Mr. CHEVRIER: How many flights does T.C.A. operate between Montreal and Paris?

Mr. MCGREGOR: Two per week, shortly becoming three.

Mr. CHEVRIER: How many flights do Air France operate?

Mr. MCGREGOR: I think two a week.

Mr. CHEVRIER: Are these T.C.A. flights direct from Montreal; they do not go via London?

Mr. MCGREGOR: There is one flight that goes via London and the other is non-stop.

Mr. SMITH (*Calgary South*): Fortunately I am not asking for the information which was required as a result of the competition of C.P.A., but I would like to ask Mr. McGregor this: in the course of the evidence before the Air Transport Board hearings I believe the corporation made several references to the problem that it had and its views on certain feeder lines it considered were not too practical or of much value to the system; I was wondering if you would care to comment whether or not it is likely that you may go back to the Air Transport Board with a view to suggesting that T.C.A. drop any of these and if so which?

A second question to which you might like to reply at the same time: can you give us an indication which of the new areas, which have been opened by the exchange on the bilateral agreement, will T.C.A. be requesting rights to fly. The minister has recently announced a new exchange of notes, in fact an agreement with the United States on the bilateral international air agreement. Do we assume that T.C.A. will ask for the right to compete on all of these?

Mr. MCGREGOR: First of all, in connection with the general question, as I understand it, this problem connected with the operation of air services to small traffic generating points, this is a problem that is world-wide. It was faced in the United States or recognized years ago, and it was decided to pay direct subsidies to the smaller companies who were operating these feeder line services.

The policy in Canada, as you know, has been for what was usually referred to in the industry as cross-subsidization with respect to the company and this, during the period of the T.C.A. monopoly on the transcontinental run, made good sense. It was a case of taking the bitter with the sweet, so far as these uneconomical services were concerned.

If by the introduction of transcontinental competition the situation is such that cross-subsidization cannot be achieved, without the company operating consistently in a deficit position, then in effect we have got subsidization by the government, if the government makes good T.C.A.'s deficits.

So that one way or another services to small places. Prairie points between Regina and Winnipeg, and between Regina and Calgary, are examples of places that are generating two or two and a half passengers per day. No airline can put an aircraft into those places and defray the costs by the revenue it will achieve. This is a matter of government policy on which I am not competent to comment. But the fact remains that if the Brandons, the Yorktons, Swift Currents and Medicine Hats in this country are going to continue to have air service, it will have to be subsidized in one way or another, either by direct subsidy or by inadvertent subsidy, by making good T.C.A.'s deficit. The alternative is their abandonment.

Mr. SMITH (*Calgary South*): I wonder if I can stop you there. You say it is a matter of government policy. Surely, Mr. McGregor, through the chair, it is a matter of government policy to see that these centres are given service; but am I not correct in assuming that it is the airline's policy to determine whether or not, through the Air Transport Board which is the vehicle you deal

with more than anyone else—there is no pressure, I believe—you tell me if I am wrong—because there is no pressure brought to bear by the government necessarily that insists T.C.A. should service these points in favour of what might be termed a secondary air line.

Mr. MCGREGOR: No, I think that is correct. T.C.A. cannot abandon its service without applying for and receiving the specific permission of the Air Transport Board. This has been done in one case, that of Kapuskasing last year, and permission was granted. In that particular case another airline was willing to take over the licence.

Mr. SMITH (*Calgary South*): That brings me to the question I asked, which was, Mr. McGregor: have you indicated to the Air Transport Board that you are likely to ask for the abandonment of any lines, or that some of these lines should be dropped?

Mr. MCGREGOR: We have indicated to the Air Transport Board that a particular problem exists with respect to what we refer to as "milk run lines," serving these points I have just mentioned in the territory between Winnipeg and Calgary.

This is associated with the fact that we are rapidly retiring all of our DC-3's, and the airports at all but one of these places are such that the runways are too short and too weak to support the Viscount aircraft, which will be the smallest aircraft we will have in operation within the next eighteen months. So that not only are the economics involved in that particular case, but also the feasibility of operation of the equipment we will have.

Mr. CREAGHAN: How many DC-3's have you in operation now?

Mr. MCGREGOR: Nine.

Mr. SMITH (*Calgary South*): Then, the second question, are you planning to request through the Air Transport Board the right to the service of the new international connections, or which of these do you intend to service or can you tell us?

Mr. MCGREGOR: Yes, I think I can. There was only one of the routes involved in the recent modifications of the United States-Canada bilateral agreement that is of definite interest to T.C.A., and that was an extension of the Halifax-Boston route to New York. This we have asked to be assigned to us, and the assignment has been made so T.C.A. will be extending that route to New York in due course.

Mr. SMITH (*Calgary South*): I asked you a year ago, Mr. McGregor—perhaps you will recall—if you had expressed any interest in servicing the Calgary-Spokane route. I have not noticed that you have. Do I take it, therefore, that T.C.A. will not request the right to service that route?

Mr. MCGREGOR: No, that is an assignment, as I understand it, from a ruling to an American carrier. I think it could be served by two.

Mr. SMITH (*Calgary South*): The agreement speaks of an American carrier from Spokane to Great Falls, Washington. The other part of the agreement is a direct route, Spokane-Calgary, to be served by a Canadian carrier.

Mr. MCGREGOR: It that by Western Airlines?

Mr. SMITH (*Calgary South*): One going south to north and one going north to south.

Mr. MCGREGOR: Paralleling each other?

Mr. SMITH (*Calgary South*): That is right.

Mr. MCGREGOR: Yes, I think that is correct.

Mr. SMITH (*Calgary South*): And the question then is, is it not the intention of T.C.A. to ask the Air Transport Board for the right to be the Canadian carrier to service that area?

Mr. MCGREGOR: No, I think there is a frequency of once a day required there, and that would be it.

Mr. McPHILLIPS: On page 4 of your report—at least I take it as page 4, it is not numbered—you have an item there, “Non-operating income,” showing net of something over half a million dollars. How is that made up?

Mr. MCGREGOR: I can give you all the details of it—largely the servicing of other companies’ aircraft. I beg your pardon, it is investment income, insurance fund excess earnings, cash discounts, profit on foreign currency transactions, and federal income tax refunds.

Mr. McPHILLIPS: In regard to the Vancouver-Victoria-Seattle run, to which there has been a good deal of publicity given in recent times, what is your position on that, the economics of it? Do you contend that you are losing money on that line?

Mr. MCGREGOR: I am delighted to answer that question, because there is certainly a good deal of confusion abroad about it. On a fully allocated cost basis, that is, with the company’s overhead spread across all the routes which it operates in relation to the ton-mileage performed on the different routes, we are losing money,—not as much as we did in the year which was quoted in the hearing, which was 1957. If overhead is not assigned to the route, with respect to 1958 we would just about break even. Therefore discontinuance would be an financial injury to the company, because the abandonment of the route would not reduce the overhead in any way. It would simply spread that overhead more thickly over the remaining routes. Does that answer your question?

Mr. McPHILLIPS: I was trying to reconcile—I may be mistaken in this—but in some of your releases and letters to officials in Victoria I gathered the impression that you had adopted a fatalistic attitude. You would remain on the run if the Air Transport Board told you to. I was trying to ascertain whether the desire of the company would be to leave the run?

Mr. MCGREGOR: No, very definitely not. Our desire is to keep the run because it properly relates to the rest of the operation. We believe that T.C.A. should be serving each of the provincial capitals in the country. Leaving this run does not improve our position financially, particularly in the light of the equipment plans we have for the run; and my phrase was, as I remember quite clearly, that “if the Air Transport Board did not give a licence to another carrier we would be delighted to continue to serve it.”

Mr. McPHILLIPS: What type of equipment do you propose to put on that?

Mr. MCGREGOR: Viscounts.

Mr. BROOME: Supplementary to that one question, Mr. Harvey testified, because I heard him testify, that we were losing \$1,300,000 a year on that, and I think he said on all these feeder routes we were losing something in the nature of \$10 million, when you take all the smaller routes and add them together. That was not giving credit to the absorption of overhead, but it seems fantastic Mr. Harvey’s evidence should show a loss of \$1,300,000 in one year and a break-even figure in the next year.

Mr. MCGREGOR: No, Mr. Harvey’s figure was very definitely inclusive of overhead and was stated as such, as being fully allocated cost.

Mr. BROOME: You agree with the \$1,300,000 figure, then?

Mr. MCGREGOR: Yes, quite.

Mr. BROOME: At a loss?

Mr. MCGREGOR: Yes, on a fully allocated cost basis in 1957.

Mr. BROOME: You are quite right, it was including overhead.

Mr. MCGREGOR: Yes.

Mr. BROOME: Are we to assume that perhaps the share of overhead which was allocated to that route was in excess of what should have been allotted to it?

Mr. MCGREGOR: No.

Mr. BROOME: Have your operations picked up to the point where a \$1,300,000 loss has come down to a break-even figure?

Mr. MCGREGOR: The allocation of overhead, I think, is entirely fair, and it was done on the basis of the formula I mentioned a moment ago. With respect to the major part of the route in question, Vancouver-Victoria, 1958 improved very substantially over 1957. There was a shipping strike, among other things. There was a system of reservations put into effect, or rather lack of reservations that greatly improved the situation and will continue to do so, I hope. There is one feature of the allocation of costs that we must admit, I regard with some suspicion, and that is that we take the average cost of selling tickets and apply that to each ticket sold.

Mr. BROOME: Will each ticket take the same amount?

Mr. MCGREGOR: Yes.

Mr. BROOME: Then a \$10 ticket takes the same amount as a \$40 ticket?

Mr. MCGREGOR: That is correct, the theory being that it is just about as time-consuming an operation to sell a \$4 ticket as to sell a \$40 ticket, but it is not quite true.

Mr. PASCOE: Mr. Chairman, supplementary to Mr. Smith's questions, I think Mr. McGregor knows the situation with regard to my own city of Moose Jaw, which has very fine airport facilities but has lost all air contact through termination of P.W.A.'s service. I wonder if you have any suggestion for smaller points such as Moose Jaw, where they can form a contact with T.C.A.?

Mr. MCGREGOR: As you know, there has been correspondence on that subject. I think Moose Jaw is some forty miles from the airport now serving it, which is quite border line from the standpoint of being inconvenient. Hamilton is something like the same distance from Malton and it is a very much larger place. From the airline standpoint at least, I think it would be aggravating to passengers to put in another short-hop intermediate stop on that route.

Mr. CHOWN: Was it not suggested or implied in the Wheatcroft report that, in due course, the T.C.A. should shed itself of these feeder lines, especially in the prairie traffic? Does that not indicate that you might get rid of the rest of your DC-3's and that some secondary carrier may take them over and operate perhaps more efficiently with a direct government subsidy?

Mr. MCGREGOR: I think it is correct to say that the Wheatcroft report did express some hopes along those lines. A very careful investigation was undertaken quite recently by what might be regarded as a smaller airline with headquarters in your city. They came up with an estimated operating cost which is within a few dollars of our own and, incidentally, we are still operating at a loss.

Mr. SMITH (*Calgary South*): What equipment is this?

Mr. MCGREGOR: DC-3's. I am speaking, of course, of Trans-Air. It was obvious that a subsidy was essential if they were not to become involved in a losing operation, which naturally they refrained from doing.

Mr. CARTER: The question I wish to ask has been asked by Mr. McPhillips. I would, however, like to make the same suggestion we made during the railway inquiry, that we discuss one page at a time or one heading at a time. We are jumping from one to another, and will spend the whole afternoon and still be on the first page.

Mr. BROOME: I disagree. This is on policy. We are discussing T.C.A. policy. In these discussions we will complete the whole report.

Mr. CARTER: On a point of order; we will not know when we have completed the report. The questions of policy are covered in traffic and service growth, and all these questions could be asked under these headings. We would make much better progress if we proceed under the headings than we are making now. I do not know where we are.

Mr. SMITH (*Calgary South*): I think that is a good idea. However, there are some questions I have in respect of air safety and I do not see a category as such.

The CHAIRMAN: I think with all respect to you, Mr. Broome and Mr. Smith, that Mr. Carter's suggestion has some merit in the operation of the committee. In the discussion in respect of the C.N.R. he made the same suggestion and it helped. At least you always may ask questions on the general policy. We have, however, Financial, Service and Traffic Growth, Equipment and Facilities—under which questions on safety would come—and you have Personnel and Planning. I think the report is well set out. Then you have the Financial Statement.

I am inclined to feel that Mr. Carter's suggestion is worthy of being followed.

Some hon. MEMBERS: Go ahead.

The CHAIRMAN: It is not our purpose to curtail anyone discussing something else. You can always revert. We will not stick to this rigidly. I do think, however, that it would be well to follow the suggestion.

Mr. CATHERS: Are we on the item, "Financial"?

The CHAIRMAN: Yes.

Mr. CATHERS: I was surprised to hear Mr. McGregor state that it was not the policy of the T.C.A. to make high profits. My first question is, when was that policy laid down?

Mr. MCGREGOR: This was a policy laid down by implication, Mr. Cathers, in our opinion, and only in our opinion, by the drafting of the Trans Canada Air Lines Act which formed the company. The policy was to give the best possible airline service within and between Canada and other countries at the lowest possible fares. High profits and low fares do not, in our opinion, go hand in hand.

Mr. CATHERS: I see that in property and equipment you have \$120 million. I also see the profit is about \$500,000. That is less than half of one per cent. Do you consider that is any way near a high profit?

Mr. MCGREGOR: You forget that about 4 per cent interest has been paid on that \$120 million before the \$500,000 was achieved.

Mr. CATHERS: There is no doubt about that; but when any ordinary business puts in \$120 million they expect more return than one-half of one per cent on their capital.

Mr. MCGREGOR: They are getting 4% plus the $\frac{1}{2}$ per cent, that you mention.

Mr. CREAGHAN: No.

Mr. MCGREGOR: Of course, they are.

Mr. CREAGHAN: It is borrowed money. You pay your fixed charges before you have a profit.

Mr. MCGREGOR: But this is the return on the investment about which Mr. Cathers is speaking.

Mr. FRASER: They borrowed it from the shareholders.

Mr. CATHERS: No, they borrowed it from the government. You come into the matter of public ownership versus private ownership.

Mr. CREAGHAN: Personally, I think this is a very, very small profit and I am glad it is.

Mr. HORNER (*Jasper-Edson*): So am I. I think it is an excellent policy.

Mr. CATHERS: What would be the average return in the United States companies?

Mr. MCGREGOR: I can give you an average. Are you speaking of return on investment?

Mr. CATHERS: Yes.

Mr. MCGREGOR: These figures should be read in recognition of the fact that in comparison with T.C.A. there is proportionately less debt capital in many of these companies.

The United States industry in 1952 had a return on investment average of 10.9 per cent; T.C.A. at that time was 7.9 per cent. In 1953, United States industry was 9.9 per cent and T.C.A. 3.4 per cent. In 1954, United States industry was 10 per cent and T.C.A. 4.2 per cent. In 1955, United States industry was 10 per cent and T.C.A. 3.2 per cent. In 1956, United States industry was 8.8 per cent and T.C.A. 6 per cent. In 1957, United States industry was 5.1 per cent and T.C.A. 3.7 per cent. In 1958, United States industry was 5.8 per cent and T.C.A. 3.8 per cent.

Mr. CATHERS: That shows on the average you are very, very low as compared to the United States companies.

Mr. MCGREGOR: Yes, keeping in mind the financial structure.

Mr. CATHERS: Here is an odd situation. You are part of the Canadian National Railways, with whom you are in competition, and you are stealing their business. No money is really being made and you are causing them quite a loss.

Mr. MCGREGOR: Good.

Mr. McPHILLIPS: So what?

Mr. CATHERS: I think it is nonsense.

Mr. MCGREGOR: No. I think it is nonsense for a railway to be in the long-range passenger business. I do not think they will be in it much longer.

Mr. FRASER: Is it true that there are only two or three American airline companies that are really making money?

Mr. MCGREGOR: Eastern Airlines has had a good profit record. I think it was the best in the United States, until fairly recently. All of them began to get into serious trouble late in 1957, with the result they made application for a very substantial fare increase. Early in 1958 they received an interim increase that averaged $6\frac{1}{2}$ per cent. This met the 1958 situation; however, the whole fare structure in the United States is still before the Civil Aeronautics Board, and it would not surprise me if a further increase was forthcoming.

Mr. SMITH (*Calgary South*): In that respect, the probable suggestion is that the losses indicated by these same airlines are basically one of accounting practices—large write-offs. You would deny that would be the case in connection with T.C.A., but is this a practice to which you agree?

Mr. MCGREGOR: No, I do not think it is correct. Economists tend to regard airline accounting with some horror, because of the high rate of depreciation that is applied, which is not common in other industries. The reason is the rapid rate of development that has gone on in regard to airline equipment. It has forced this high rate of depreciation. The longest depreciation life we are operating on is nine years, which is with respect to the Viscount. The Super Constellations are depreciated on a seven-years basis, and even

then they will not be fully depreciated when they are retired. I doubt very much whether there would be a good market for those aircraft when they are put out of service. This is a horrid situation and it is going to continue, because the airline manufacturers cannot keep alive by simply meeting the growth; they must continue to bring out new types of aircraft. But we are forced, in the keeping up with the "Jones" theory of airlines, to go to the newer aircraft. Before we have received deliveries of DC-8's, we are being approached by manufacturers offering to sell us a Mach II aircraft for \$11 million each.

Mr. DRYSDALE: I would like to make a couple of comments on two matters you raised, the first is in respect of what you thought was going to be a \$5 million loss as a result of Canadian Pacific Airlines competition; and the second comment I would like to make is in regard to the matter raised by Mr. McPhillips, the Vancouver-Victoria situation. I would like your comments on a couple of statements made by Mr. Wheatcroft in his report of airline competition in Canada. It is set out on page 70.

The most serious weakness in the present pattern of T.C.A. services is the low level of frequency, relative to the desirable frequency, on nearly all of the major transcontinental sectors. Over half the sectors have a frequency less than half the number assessed as commercially desirable.

Mr. MCGREGOR: Would you like me to comment on them separately?

Mr. DRYSDALE: Whichever is most convenient.

Mr. MCGREGOR: I think Mr. Wheatcroft is an able airline economist, but he had a formula to which he gave birth himself and of which he thought a great deal. It was that the frequency on any route should be at an interval of time equal to the flying time between these two points. This would mean that a frequency between, we will say, Montreal and Ottawa should be every thirty-five minutes; between Swift Current and Medicine Hat it should be every twenty minutes.

Now, personally I cannot follow the reasoning. That seems to me to have been the basis for his statement that the frequency was too low. It did not take into account the fact that frequency is purely a matter of the size of the aircraft and the volume of traffic which is going to move. There is no use in flying an empty aircraft between two points. If there are 100 people moving and if an aircraft is carrying 40 people then three frequencies would meet the traffic demand.

Mr. DRYSDALE: You will probably have the same criticism in regard to this quotation. It is set out at page 75.

By comparing the actual traffic moving in September 1957 with the minimum traffic required for competition, using aircraft of 40 seats for routes under 1,000 miles and 60 seats over 1,000 miles, the conclusion is reached that there are only three routes in Canada at the present time which have a traffic volume adequate to sustain competitive service without danger of an increase in average operating costs. These are: Toronto-Montreal, Vancouver-Victoria and Toronto-Winnipeg.

I would like your comments in connection with the Vancouver-Victoria aspect. Do you agree with that statement?

Mr. MCGREGOR: There may be plenty of traffic according to Wheatcroft to justify two carriers; but probably, neither will make money, if there are two. There is plenty of traffic between Montreal and Toronto to justify two carriers, but neither will make money. There is not enough traffic between Winnipeg and Toronto to justify two carriers.

Mr. DRYSDALE: What is your present frequency of travel between Vancouver and Montreal, your transcontinental routes?

Mr. MCGREGOR: I believe it is eleven.

Mr. DRYSDALE: Eleven per day?

Mr. MCGREGOR: Yes, both ways.

The CHAIRMAN: Are there any further questions in regard to this section; if not, we will proceed to "service and traffic growth".

Mr. SMITH (*Calgary South*): May I revert in dealing with service and traffic growth, Mr. McGregor. I do not want to deal with anyone's home town, but there is a principle involved and it concerns the city of Calgary. At the last session I asked you "has T.C.A. indicated to the board whether they would like to fly a route south into the United States from Calgary", and your answer was "Yes, indeed".

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): And I asked you a short time ago whether you had any interest in making application to the Air Transport Board for this route, and you made a reference to the fact it has a low density. This competition from the standpoint of the American airlines would indicate it has a high density. I am concerned about the fact you might not be familiar with that branch and the fact there is an inconsistency with the answer you gave eight months ago.

Mr. MCGREGOR: There is no inconsistency. You mentioned specifically Spokane a few minutes ago; eight months ago we were not talking about Spokane.

Mr. SMITH (*Calgary South*): What were we talking about then?

Mr. MCGREGOR: We were talking about two or three different places; one we were very anxious to get was Los Angeles, another San Francisco and another Denver.

Mr. SMITH (*Calgary South*): Your reply is that you would fly Calgary-Denver but not Calgary-Spokane?

Mr. MCGREGOR: Yes.

Mr. BROOME: In connection with Mr. Smith's question, it was mentioned you applied to the Air Transport Board. My understanding is that although the Air Transport Board regulates all other carriers in Canada, you do not have to apply to the Air Transport Board in regard to flying other routes.

Mr. MCGREGOR: Are you speaking of routes within Canada?

Mr. BROOME: Yes.

Mr. MCGREGOR: No, we have to apply to the Air Transport Board. We hold a licence from them for every route we operate and we could not operate without it.

Mr. BROOME: In connection with this new tourist service to Vancouver, you have to apply to the Air Transport Board for authority to put that plane on; is that true?

Mr. MCGREGOR: No. We had the right to operate an airline service over the route and the licence does not specify the class of service.

Mr. BROOME: Now, does that apply to other carriers as well?

Mr. MCGREGOR: Yes.

Mr. BROOME: In other words if the carrier has the right to fly between cities A and B, they could increase or decrease the frequency of that service without reference to the Air Transport Board?

Mr. MCGREGOR: With the exception of the recent licence granted to the C.P.A., that is correct. It is the only case of a frequency limitation I know of.

Mr. BROOME: With regard to the Air Transport Board the T.C.A. is on exactly the same basis as any other carrier in Canada?

Mr. MCGREGOR: Yes, exactly the same with regard to class one, carriers which we are, and other scheduled airlines are. There are several carrier classifications.

Mr. BROOME: Does class one include the Maritime Central, the T.C.A. and C.P.A.?

Mr. MCGREGOR: Yes.

Mr. BROOME: And perhaps Trans-air?

Mr. MCGREGOR: Yes.

Mr. BROOME: Quebec Air?

Mr. MCGREGOR: Yes, and Nordair.

We are exactly on the same footing and have to apply to the Air Transport Board for permission to change rates or to serve any new points.

Mr. BROOME: I did not understand that. I thought you were not under their jurisdiction.

Mr. MCGREGOR: Yes, we are.

Mr. SMITH (*Calgary South*): It is hoped there will be a number of other names to the bilateral agreement in which T.C.A. will undoubtedly show interest, in asking the Air Transport Board for air rights.

I wonder if you can tell us what will be the basis of your position, and whether it is economical for you to bid on these? Density is the chief factor in this regard. I am going back to the situation where previously there was a high density between Spokane and Calgary. What do you say about that?

Mr. MCGREGOR: I think we disagree on what is "high density".

Mr. SMITH (*Calgary South*): What do you say is "high density"?

Mr. MCGREGOR: It is a relative term, of course; but a high density route I regard as, say Toronto/New York, or Montreal/New York, or Toronto/Montreal. These are routes on which there are several hundred passengers a day now.

Mr. SMITH (*Calgary South*): You are looking for feeder routes to tie in with your services, but there is no standard program; it is a number of factors?

Mr. MCGREGOR: Yes, there is a number of factors, but it is primarily economic. We know to a fraction of a cent what the costs are to operate per seat mile, and we have a pretty accurate report of the traffic volume, and the economics show up very distinctly my reasoning.

Mr. SMITH (*Calgary South*): I wonder if I could switch to Bermuda?

Mr. DRYSDALE: Good idea; I will go with you.

Mr. SMITH (*Calgary South*): You are running North Stars on the Bermuda route?

Mr. MCGREGOR: Yes, and Super Constellations.

Mr. SMITH (*Calgary South*): That has been most profitable?

Mr. MCGREGOR: Yes, it has been quite profitable, but it is very seasonal traffic and it is in competition with other services.

Mr. CATHERS: I see there is an insurance fund of \$6 million. How have you built that up? You carry your own insurance.

Mr. MCGREGOR: Yes.

The CHAIRMAN: We are on Service and Traffic Growth.

Mr. CATHERS: We are on the financial statement, are we not?

The CHAIRMAN: No, we are past that. We are on Service and Traffic Growth.

Mr. McPHILLIPS: We have not got to that yet.

The CHAIRMAN: We can revert to it later, if you like.

Mr. MCGREGOR: It is on the balance sheet.

The CHAIRMAN: Mr. Smith is sticking very closely to the item on Service and Traffic Growth, and so is Mr. Broome.

Mr. CHEVRIER: We are on traffic?

The CHAIRMAN: Yes, Mr. Chevrier.

Mr. CHEVRIER: On traffic, may I ask the president whether he could tell the committee what T.C.A. have in mind for the future, and if anything at all in 1959, other than on its domestic services? For instance, the Caribbean and European services?

Mr. MCGREGOR: We have been steadily increasing the frequency on these routes in 1959, and the operating plan calls for the continuation of that. The same is true of the Atlantic route, where we go to 16 flights a week, at the height of the season. Generally speaking, by sales and advertising effort, and larger frequencies, as the demand develops, we expect all these routes will continue to grow.

Mr. CHEVRIER: What about extending the routes?

Mr. MCGREGOR: To other points?

Mr. CHEVRIER: Yes.

Mr. MCGREGOR: The 1959 program is now pretty well implemented. On May 2, we started service to Vienna. Earlier Antigua was added as a point on our route to Barbados and Trinidad. There are under discussion at the present time, two or three routes which may lead to bilateral agreement amendments.

Mr. CHEVRIER: Have you any expectation of getting into Rome?

Mr. MCGREGOR: We would hope to.

Mr. CHEVRIER: I suppose you know that the C.P.A. are trying to get in there first?

Mr. MCGREGOR: Yes, that is why I said we "hope" rather than we "will".

Mr. CARTER: I would like to ask Mr. McGregor what is the difference between the economy class overseas and the tourist class. Which is the cheaper, and are they both compensatory?

Mr. MCGREGOR: "Yes", to the second question. Economy was the cheaper, but tourist has now disappeared so far as T.C.A. is concerned.

Mr. DRYSDALE: Would you define compensatory?

Mr. CARTER: How does it compare with the first class?

Mr. MCGREGOR: In terms of service or cost?

Mr. CARTER: Well, is there less seating space?

Mr. MCGREGOR: Very much less seating space. In the economy class you are five abreast in the Super Constellation, and the distance between the seats is very much less in the cabin. The cabin service, such as meals, and alcohol—alcohol has been non-existent so far as the economy class is concerned, until recently. White a meal was a box lunch; now it is a cold plate.

Mr. CARTER: I want to ask about your cargo service. You said:

Unfortunately, only a small proportion of the capacity was utilized within Canada, due principally to the comparative scarcity of west to east commodity traffic.

What can you do about that?

Mr. MCGREGOR: We have done all that lies within our power. We have established a rate differential between west to east and east to west. We have

endeavoured to meet the sudden surge of demand represented by cut flowers, that last for about four days, and come in hundreds of tons at a time. But until Canada has a light industry on its west coast comparable to that in existence in the United States, I think this imbalance in cargo transcontinentally will continue.

The CHAIRMAN: What about freight transportation? Do you have a lot of that? Is that a big factor in your revenue?

Mr. MCGREGOR: No, not a big factor. The comparable revenue is shown.

The CHAIRMAN: It is not a big factor yet?

Mr. MCGREGOR: No.

Mr. CHEVRIER: Have you planes that are carrying cargo exclusively.

Mr. MCGREGOR: Yes, four of them.

Mr. CHEVRIER: Between Montreal, Toronto and Vancouver?

Mr. MCGREGOR: Yes.

The CHAIRMAN: Overseas too?

Mr. MCGREGOR: And Chicago and New York.

The CHAIRMAN: Overseas too?

Mr. MCGREGOR: No, there is plenty of residual room in the Super Constellation for the trans-Atlantic cargo.

Mr. CHEVRIER: Could I ask the same question which Mr. Carter asked a moment ago? Are you still operating four categories of service overseas?

Mr. MCGREGOR: Yes, until recently.

Mr. CHEVRIER: Deluxe, first-class, tourist and economy?

Mr. MCGREGOR: We struck out the tourist service this spring.

Mr. CHEVRIER: Why is there such a distinction to be made between the three categories of services?

Mr. MCGREGOR: Money-wise?

Mr. CHEVRIER: Yes. Why not just have first-class and tourist? Is there such a difference between the deluxe and first-class to warrant the justification for a third category?

Mr. MCGREGOR: Personally, I do not think so, and I would like very much to see it down to two; but we are taking a chance already in having discontinued the tourist service because some kind friend always comes along and advertises the fact that he is operating the only tourist service across the Atlantic. The same applies to the first-class, and the implication is they are the only first-class service, or the only deluxe service, and so on.

Our only hope would be that the international air transport association, in its wisdom, will say that two classes are adequate.

Mr. PASCOE: Under service and traffic growth it says:

T.C.A. carried first class mail throughout its domestic routes wherever air transport offered faster delivery.

What other delivery would be faster than air transport?

Mr. MCGREGOR: On certain short routes such as Montreal to Ottawa the use of aircraft does not improve the time of the actual delivery of the letter to the recipient. In that case we are not given first class mail. This is entirely apart from air mail paid for as such.

Mr. CREAGHAN: I want to ask a question, first of all, about the landing fees which you pay. How do they compare in Canada, vis-à-vis other countries?

Mr. MCGREGOR: Generally speaking, they are higher.

Mr. CREAGHAN: Higher in Canada?

Mr. MCGREGOR: Yes.

Mr. CREAGHAN: What about Canada as compared to the United States?

Mr. MCGREGOR: Higher.

Mr. CREAGHAN: What about the wages of your employees as compared to the wages paid by your American competitors?

Mr. MCGREGOR: Slightly lower.

Mr. CREAGHAN: Yours are lower?

Mr. MCGREGOR: Yes.

Mr. CREAGHAN: You have a statement under this heading we are discussing as follows:

The average level of T.C.A. fares is now approximately the same as that applying in the United States, even though the cost of air line operations in Canada is substantially higher.

I wonder if you would justify that statement, that your air operations are higher in Canada as compared to the United States?

The CHAIRMAN: I think that question was covered before you came in, Mr. Creaghan.

Mr. MCGREGOR: Exactly the same question was posed and answered.

Mr. CREAGHAN: A short answer would do.

The CHAIRMAN: He dealt with it before you came in.

Mr. MITCHELL: I have a question in reference to Antigua and Barbados. At the beginning of the year you were pioneering this Antigua run. Is it too soon to ask if you are satisfied with the returns from that flight?

Mr. MCGREGOR: I should explain that it was really not a pioneer run inasmuch as we were flying over Antigua on our way between Bermuda and Barbados anyway, so we originated a stop on one of the flights at Antigua on an experimental basis. The original intention was only to operate that stop during the height of the southern tourist season.

Mr. MITCHELL: And it turned out favourably?

Mr. MCGREGOR: We were very pleasantly surprised at the volume of traffic we got. It would have been greater still had there been more hotel accommodation at Antigua.

Mr. DRYSDALE: You mentioned that your tourist runs were compensatory. What is your definition of compensatory?

Mr. MCGREGOR: I said yes, they were.

Mr. DRYSDALE: I know, but what is your definition of the word compensatory?

Mr. MCGREGOR: My definition is that the revenue obtained from the sale of seats which are sold exceeds the cost per seat mile, including the overhead.

Mr. DRYSDALE: Speaking of seat miles, you mention a revenue passenger load factor of 69.3 per cent in 1958. Is that ratio of seat mile figure available?

Mr. MCGREGOR: Yes.

Mr. DRYSDALE: Can you compute it? Do you have statistics available as to the individual runs, let us say, from Vancouver to Toronto? Do you know the number of seats which would be empty on certain specific flights?

Mr. MCGREGOR: Yes.

Mr. DRYSDALE: You are able to do that?

Mr. MCGREGOR: Yes, we keep a record of it.

Mr. DRYSDALE: You have a record of it?

Mr. MCGREGOR: Yes.

Mr. DRYSDALE: Fine.

Mr. SMITH (*Calgary South*): I wonder if Mr. McGregor would be good enough to file the particulars of air traffic in connection with the various Canadian cities? I believe it is usual to do this, as it was done at the meetings last year. I noticed it in the minutes of the meeting last year. Is that information again available?

Mr. MCGREGOR: Not normally, not unless it is required.

Mr. SMITH (*Calgary South*): May I now ask you for the figure on Trans-Canada boarded passengers in Canada, for the year 1958?

Mr. MCGREGOR: Yes.

Mr. SMITH (*Calgary South*): Thank you. Another question I have is on service. Last year we had some discussion about the number of complaints per air mile. I believe you pointed out that it was 1.6 per thousand passengers which was relatively low, and you were satisfied that you were working towards correcting what was basically a public relations problem. Can you make any report this year? Are you still happy that you are progressing in correcting this situation, which is not as substantial as many citizens would have us believe?

Mr. MCGREGOR: I think I said last year, as I shall say again this year, that the number of written compliments we get exceeds the number of written complaints, which I think is unusual for a service organization. It is so much easier to write a letter of complaint than it is to write a compliment.

I think the standards of service are continuing to improve. I think I mentioned last year, and it is equally true this year, that one of the great features that affect the standard of service which the average potential or actual airline passenger receives is the load factor. As I mentioned last year, again it has been the company's plan of operation on a long-term basis steadily to decrease the load factor to 65 per cent.

A lower load factor means that the passenger very much less frequently encounters a situation where he cannot make a reservation for the flight of his choice.

Mr. SMITH (*Calgary South*): I mentioned 1.6 per thousand passengers, but do you find that the new system of reservation of clearances has improved your problem to a substantial degree? It has only been in operation a full year.

Mr. MCGREGOR: Yes, it has; and we are looking forward to further improvement with the automatic reservation system.

Mr. PASCOE: In the field of traffic growth, would Mr. McGregor care to comment on the result of the T.C.A. policy of flying now and paying later?

Mr. MCGREGOR: Yes, would you like the figures or just a general comment?

Mr. PASCOE: A general comment would suit me.

Mr. MCGREGOR: It began first of all on the Atlantic, and it was extended to the domestic operations later on. It is proving to be very popular. The net bad debt results have been infinitesimal so far.

Mr. PASCOE: Do you carry your own loss?

Mr. MCGREGOR: No, we discount the sale of the ticket through the bank.

Mr. PASCOE: The same as the Canadian National Railways.

The CHAIRMAN: Are there any other questions?

Mr. CHEVRIER: Last year there was I think general commendation in so far as T.C.A. air service was concerned, but there was some criticism on its ground service. I know that T.C.A. has been paying particular attention to ground service operation in the last year, but can the president report to the committee on how it is progressing now?

Mr. MCGREGOR: Yes, perhaps I might generalize by saying that this form of criticism is not unique with respect to T.C.A. It is offered by many people with respect to all air lines. This I think is a result of the fact of the so called ground service—the man behind the counter at the airport—is the bearer of bad tidings, and oftentimes he does not know the reason for them.

As I say, it is because of his not being able to explain why these things occur in minute mechanical detail. But these are matters which will never be eliminated. They can be remedied to a degree, and T.C.A. in recent times, over the last several years, has concentrated on that problem to a great extent.

T.C.A. is one of the few companies in Canada which has carried on a self-measurement program, based on returns acquired on the quality of actual service given, the general helpfulness, and the cooperation on the part of the employees towards the passengers. Coupled with it there is our biennial or twice yearly passenger comment survey. This has shown a slow but steady improvement in the general reaction to the company.

Mr. CHOWN: What is the latest word on the movement of the instrument shop works from Winnipeg to Montreal?

Mr. MCGREGOR: The latest word is that in due course the basic instrument shop will be moved to Montreal, but the instrument work specific to the Viscounts will be left at Winnipeg.

The CHAIRMAN: Are there any other questions under Service and Traffic?

Mr. HORNER (*Jasper-Edson*): I hesitate to ask this: but as you know, Edmonton is very air-conscious. When the international airport becomes operational, does T.C.A. plan to operate apart from the municipal airport?

Mr. MCGREGOR: Yes, I do not think we will have any choice.

Mr. SMITH (*Calgary South*): You have expressed some views in connection with the handling of baggage of passengers at the airports. What are you working towards in that respect, having regard to a speeding up of the service to passengers in placing them in the aircraft?

Mr. MCGREGOR: Improvement in the speeding up can only be associated with an extension of airport terminal facilities, and that is being dealt with at Montreal and Ottawa. Plans are in the making for Toronto. New buildings have been completed at several other sites; Saskatoon is one. An extension has recently taken place at Winnipeg—this was about a year ago—and a further new terminal is planned there. And so it goes, across the country.

Mr. SMITH (*Calgary South*): That is only an extension of the area in which the service will be provided. But in pure economics, you do not look for any improvement in the weighing-in ceremony that takes place?

Mr. MCGREGOR: I think the weighing-in will have to continue. The speed is greatly affected by the number of counter positions that are available. If there are only two or three, and the whole load of a flight has to queue up at one, that slows up the process very much. An extension we built ourselves at Montreal provides, I think, eleven weighing-in positions and the speed passengers are put through there, is adequate, in my opinion.

Mr. DRYSDALE: I asked earlier about the revenue passenger load factor. I was also interested in the non-revenue passenger load factor. Do you have any percentages on that? And tied in with that, I would be interested in just a general outline of your pass policy in relation to your employees and others.

Mr. CATHERS: And Members of Parliament.

Mr. DRYSDALE: No, I did not have that in mind.

Mr. MCGREGOR: There is no such thing as a non-revenue passenger load factor. The passenger load factor is the number of seats occupied in relation to the seats available for sale.

Mr. DRYSDALE: I see.

Mr. MCGREGOR: This may not, necessarily, be the total number of seats in the aircraft. If, for instance there was a fuel requirement that exerted a weight limitation on the payload of the aircraft, then the 44 seats in a Viscount might be counted as 40 seats available, because we could not carry more than 40 passengers on that particular flight.

Mr. DRYSDALE: That percentage would include people travelling on passes, then?

Mr. MCGREGOR: No.

Mr. DRYSDALE: What is the pass policy of the T.C.A.?

Mr. MCGREGOR: You want me to describe the T.C.A. pass policy?

Mr. DRYSDALE: Yes. I was interested regarding employees, that is all.

Mr. MCGREGOR: Employees and dependents get vacation passes related to distance based on years of service with the company. There is no other pass granted to T.C.A. employees, except they may obtain transportation on a half-fare basis. All other T.C.A. personnel that level on the airline are doing so on company business.

Mr. CHOWN: How many such passes were issued last year, please?

Mr. MCGREGOR: They are divided into several categories: persons on company business—that is, employees on company business; employees on personal account—that is what I have just been talking about—and persons outside the company.

The total the first category, employees on business, including employees and dependent transfers—that is where we move a person from one place to another and move his family also—is 4,159; educational, 512; periodic tours or familiarization, Link instructors, 152; flight dispatch supervisors and dispatchers, 270; employee familiarization, 2,914; applicants for employment and employees leaving the company, 543.

Mr. CHOWN: Have you an estimate of the cost to the company?

Mr. MCGREGOR: There is little or no cost to the company; these are "space available" except where indicated. Employees' personal account, vacation, 24,979; compassionate, 739; isolated leave, 402. Persons outside the company, promotional and public relations, 1,698; courtesy trips between points in the United Kingdom, 163; department of Transport, 112; Air Transport Board, 8; Canadian National Railways, 456.

Mr. CHOWN: If these are on "space available" basis, would the Members of Parliament that live outside a radius of 500 miles be treated in any other category?

Mr. MCGREGOR: This point has come up several times, and I have expressed the opinion that it would be exceedingly unfair to junior employees of T.C.A. to put them in the position of having to refuse forward transportation to a Member of Parliament who had begun his trip. This happens to these employees.

Mr. CHOWN: As a result of other passengers taking the space?

Mr. MCGREGOR: Yes, revenue passengers.

The CHAIRMAN: Are there any other questions on traffic?

Mr. DRYSDALE: I do not know whether Mr. McGregor would be interested in this, but I wonder if we could extend to him this courtesy, perhaps, that if he had problems that he thought should be drawn to the attention of the committee on some of these sections, perhaps he could bring them before us. I do not know whether he has, or not; but at present he is limited to the

questions we happen to think up, and there might be matters which might be of interest under the various sections which we have not thought of.

The CHAIRMAN: I do not think that we should give him the responsibility of thinking things up, if we cannot think of them ourselves.

Mr. DRYSDALE: I do not mean that, necessarily. I was trying to think of some way to make the committee perhaps a little more effective. There may be certain matters that he would like to bring out and draw to our attention, which we could comment on.

Mr. CHEVRIER: Mr. Drysdale is getting very close to a question I was going to ask, and which has already been asked—and I am sure Mr. McGregor was here—of Mr. Gordon. The question is this. I think perhaps the committee would like to know what his views are on the manner in which this committee is being operated, and whether he has a reaction similar to that of the president of the C.N.R., insofar as his appearance before this committee is concerned.

But perhaps this is not the time to ask that. I think it should be asked, either now or at the end of the discussion of this report, because I think we would like to know, for our committee hearings and discussion on our report, whether there is agreement between the two crown corporations on that matter.

The CHAIRMAN: I think that should be asked later.

Mr. CHEVRIER: If you want to leave it until later, that is all right with me.

The CHAIRMAN: I think we should leave it until later.

Mr. CHEVRIER: But I was afraid Mr. Drysdale was going to get there first. He almost did.

The CHAIRMAN: Shall we proceed. Are there any other questions on Service and Traffic?

Section agreed to.

Equipment and Facilities. We will keep your suggestion in mind, Mr. Drysdale.

Mr. CHEVRIER: A moment ago you said, Mr. McGregor that even before you took over the new and modern aircraft, people were up to you, selling you still more modern aircraft. Can you give us an idea of what aircraft is being offered to T.C.A. now when you are still awaiting delivery of more Super Constellations?

Mr. MCGREGOR: I did not say selling, I said trying to sell, and I do not think it would be entirely fair to, as it were, jump the gun on any one or two companies at this stage of the game. But I did refer to the type of aircraft they were talking about as one which would be flying between two and three times the speed of sound. It would not be very large by present standards, but it would have this fantastic speed.

I do not personally think that at this present stage of the airlines' financing generally that this type of "carrot before the nose" would be snapped up. I do not know that there are any airlines that would be in a position to contemplate financing an aircraft that would come along perhaps only a few years after the D.C. 8's and 707's.

Mr. CHEVRIER: Having regard to the present technological progress, how long can you assume that the present fleet of T.C.A. would be adequate to meet the competition?

Mr. MCGREGOR: I would not think more than six years. If I may speak for a moment about equipment, Mr. Chairman, I had these models put on the table because I thought they might be of interest to the committee. They represent the three turbine type of aircraft that T.C.A. expects to have in service in 1961 and the only three types we will then be using. These models are built almost exactly to the same scale so that their relative sizes modelwise will be repeated in the actual aircraft.

The one on your right is the Viscount, which many of you were in at noon today, 44 passengers and a gross-all-up weight of 62,000 pounds.

Mr. HORNER (*Jasper-Edson*): Could we have the approximate cost?

Mr. MCGREGOR: \$1,200,000. Then the middle one is a Vanguard which is a big turbine propeller aircraft and the last one we will get of these three with a gross-all-up weight of 135,000 pounds, approximately priced at \$2½ million.

Mr. CHEVRIER: Speed?

Mr. MCGREGOR: 425 miles an hour.

Mr. CARTER: How many passengers?

Mr. MCGREGOR: One hundred roughly. It depends on the cabin configuration.

Mr. CARTER: Against 44?

Mr. MCGREGOR: This next one is the first full jet aircraft T.C.A. will have. It is powered with Rolls Royce Conway engines. It will carry 125 passengers, again depending on the seating configuration. The first one is expected to be delivered about the beginning of the year, late December or early January, speed 550 miles an hour and oddly enough a price of \$5,500,000.

Mr. McPHILLIPS: Do you pay duty on those?

Mr. MCGREGOR: Ten per cent excise duty.

Mr. CARTER: Any of the three made in Canada?

Mr. MCGREGOR: No, the Viscount and Vanguard are made by the Vickers Company in the United Kingdom, the D.C.8's made by the Douglas Company in California, the power plants in all being Rolls Royce. In the Viscount the Rolls Royce Dart; in the Vanguard the Rolls Royce Tyne and, as I said, in the D.C.8 the Conway.

Mr. CHOWN: Have you crews in training now for the operation of these planes?

Mr. MCGREGOR: Not yet. We have ground personnel in training but not crews. That will start in September or October, I would think.

The CHAIRMAN: That would just cost \$10,000 a mile speed?

Mr. MCGREGOR: That is right.

The CHAIRMAN: Five hundred and fifty miles, \$5,500,000.

Next is Personnel. I am glad I mentioned that speed. Personnel.

Mr. McPHILLIPS: On Personnel you have four directors appointed by the government and five elected by the Canadian National Railways, is that correct?

Mr. MCGREGOR: Yes.

Mr. McPHILLIPS: When it comes to the presidency, who appoints the president?

Mr. MCGREGOR: The directors elect the president from among their number.

Mr. McPHILLIPS: Thank you.

The CHAIRMAN: They were lucky to get such a good one from among them. Agreed to.

Planning. New plans—the company anticipates in 1959 a further growth in popularity of air transportation and so on, and four more Viscounts.

Mr. CHEVRIER: That is the question which Mr. McGregor has just answered.

The CHAIRMAN: Yes. Has anyone anything on that?

Mr. FRASER: Just one question. In regard to these trans-Atlantic flights, does your office in any way help the people to figure accommodation at the end of the run?

Mr. MCGREGOR: Yes, we have a small visitor's service bureau attached to the London office. It is there for the express purpose of helping people with hotel accommodations, shopping, theatre tickets, etc.

Mr. FRASER: And Vienna, the same there?

Mr. MCGREGOR: No, London only.

Mr. FRASER: What about Barbados?

Mr. MCGREGOR: The normal business office is supposed to be of such help as they can and I think they are quite helpful.

The CHAIRMAN: Anything further on planning? That takes pretty much the report over to the financial statement.

Now, before you approach the financial statement, I suppose any questions—

Mr. CHEVRIER: Well, could we get a statement from Mr. McGregor—

The CHAIRMAN: —on the financial statement?

Mr. CHEVRIER: No.

The CHAIRMAN: You mean what you mentioned before?

Mr. CHEVRIER: Yes.

The CHAIRMAN: Yes, I was going to suggest this might be the time. I think what Mr. Chevrier had in mind—

Mr. DRYSDALE: Could you give me an answer to mine too?

The CHAIRMAN: Well, you are both the same, I think.

Mr. DRYSDALE: No.

The CHAIRMAN: I thought they were, seriously. I thought you had mentioned and Mr. Chevrier had more or less acquiesced and said yes, something similar to what Mr. Gordon suggested as to what would constitute better terms of reference in the future that we give consideration to but not necessarily follow. You were here this morning, I think Mr. McGregor.

Mr. CHEVRIER: Mr. Drysdale was getting very close to it and I have no objection if he wants to ask it.

Mr. CATHERS: Let us get the question answered, forget who asked it.

The CHAIRMAN: I think it should go on the record that Mr. McGregor is giving us his impressions of future treatment by this committee and that it is in response to a member's question the same as in Mr. Gordon's case.

Mr. DRYSDALE: The question I have asked—and as I have learned in here where you have to make a mental note to see if you get the answer—the question is whether Mr. McGregor would be permitted to draw to the attention of the committee any items in the annual report which he thought might be relevant and on which no questions had been asked. I may be wrong but my question seems to have been bypassed somewhere or another. I assume it was purely inadvertent, there is no criticism.

The CHAIRMAN: I do not want to embarrass him by having him conduct his own examination.

Mr. DRYSDALE: I do not mean that Mr. Chairman, but there might be some items. We cannot think of all the possible questions that should be asked. You may have some doubts on that point but there may be certain things that come up causing trouble for the T.C.A. that he might like to explain to us.

The CHAIRMAN: He is free to do that if he wishes.

Mr. DRYSDALE: That is all I am trying to do. Then Mr. Chevrier came in and was afraid I was going to beat him to the gun.

Later in the Proceedings

The CHAIRMAN: Mr. Chevrier is asking the same as he did with Mr. Gordon, do you have any proposals we might consider for sittings in the future.

Mr. MCGREGOR: I might say I was here from about 3.20 on yesterday afternoon. I heard what Mr. Gordon had to say and I heartily agree with his statement on the internal company effect of the committee. I think he could have gone farther and I would like to go a little farther with respect to the preparation of statistics.

Regarding statistics—and it showed particularly at the C.P.A. hearing where we were asked literally hundreds of questions requiring large amounts of statistical information—they were available, but they were not available for nothing. They were available because of the continued examination of a succession of these committees year after year and the belief on the part of the airlines that it should be in a position to answer any question bearing on the airlines' operations. But these statistics are compiled as a regular thing within T.C.A. in greater detail than would be the case were it not for the existence of this committee. Many of them are costly to prepare and many of them are not used in the normal operations of the company and I do not think would be required were it not for the possibility that they may be required by the committee. I think economies would be achieved if the scope of the questions, as Mr. Gordon suggested, were limited to matters, as he also suggested, of policy and general administration.

With respect to Mr. Drysdale's question, it has been my experience before these committees that no suggestions are required as to areas in which questions should be asked because they cover the waterfront, I think, quite completely.

Going further into what he had in mind, I very much appreciate the suggestion that if we have troubles that are not dealt with in the normal questions that this would be the proper place to air them. I think the two primary ones have been touched on. One is the effect of competition on the economy of the airlines. Apart from money great difficulty will always exist in my opinion in maintaining the staff morale of any organization that is chronically operating in an un-satisfactory economic condition. It exposes employees of a company to the usual criticism if it is a public company such as "Why do we have to pay your salary," and I would very much hope the effect of the competition which has been introduced with respect to the trans-continental line this year, will be outgrown by T.C.A. and that the policy will not be continued to the point where we might be thrust into a chronic deficit position.

There is another area that has been touched on here that is of extreme interest to any airline operating internationally and that is the bilateral situation. Bilateral negotiations are extremely difficult and I am sure that the Minister of Transport will agree with me that any support which can be given to the general thesis that Canada should not squander its birthright in bilateral negotiations would be appreciated as well as it would be appreciated by both the international Canadian airlines.

Mr. DRYSDALE: Could I ask a personal question? If it is embarrassing, do not answer. In the past few years what value, if any, have these committees been to you?

Mr. MCGREGOR: I am not at all inclined to be facetious in answering that. I think they have been of this value, if nothing else, that it has required all the senior personnel of the company to become extremely familiar with, and remain extremely familiar with the statistical details of the company to a degree which otherwise would not have taken place under pressure of normal

work. I think perhaps this has some value. I think Mr. Gordon was right in saying it is more than offset by the time that is involved.

Mr. CATHERS: Mr. McGregor, you mentioned that actually these statistics which were compiled were very costly. Have you any idea of an estimate in dollars, of what it costs you to get the figures for this meeting?

Mr. MCGREGOR: No, I would not have.

Mr. CATHERS: I know it is pretty difficult.

Mr. MCGREGOR: Because you can say that a report is sent in—for instance, we were asked for the boarding passenger load at every city across Canada. This is compiled from the gross roots up. It begins at the station itself, checked by an accounting record of ticket sales. You might say that all the people who may be involved in that would have to be doing that type of work in any case, but the fact is that additional work generally means additional people. Perhaps you might not say that we could remove four people out of this staff if this statistic was not kept.

Mr. CATHERS: On that point asked, about the boarding passengers, you were hesitant to answer. Is that information that might be helpful to your competitor?

Mr. MCGREGOR: Yes.

Mr. CATHERS: Then I would suggest that that information not be tabled because we do not want our company to be divulging information that is going to be of use to someone else.

The CHAIRMAN: The same thing that was given last year, Mr. Smith's question.

Mr. CATHERS: That is last year's question and I do not think our airline company should be asked to divulge information that might be helpful to competitors.

Agreed.

The CHAIRMAN: I think if we are to continue to divulge too much information, we had better sell it out to another private owner. Seriously, what is your pleasure? Mr. Smith is not here.

Mr. CHEVRIER: I notice Mr. Smith was asking for it on behalf of somebody else and was not pressing for it. While it is true it was asked for last year, perhaps it should not have been given and, if it is the feeling of the committee that it should not be given this year, then perhaps we should not ask him to give it.

The CHAIRMAN: I think we more or less acquiesced in the proposal when Mr. Smith was here.

Mr. CHOWN: It was Mr. Fisher's question. I believe, however, if Mr. Chevrier will put this in the form of a motion we might vote on it, whether or not Mr. Smith and Mr. Fisher are present.

The CHAIRMAN: I think in this committee we are still sitting and I imagine we have authority not to publish it if we do not want to. It comes back to the similar situation which we had in respect of the Canadian National Railways.

Mr. DRYSDALE: I will make the motion that the question asked by Mr. Smith on behalf of Mr. Fisher—

Mr. FRASER: Mr. Fisher's name was not mentioned.

Mr. DRYSDALE: —that the question asked by Mr. Smith in respect of information on the boarding loads at every station across Canada be refused.

Mr. CREAGHAN: Or that the information be given Mr. Smith but not made a part of the record.

The CHAIRMAN: Yes. It is moved by Mr. Drysdale, seconded by Mr. Creaghan, that in respect of the information asked for, it is the committee's view that Mr. Smith secure it personally from Mr. McGregor but that it not be put in the record.

Agreed to.

Mr. CHOWN: What progress are you making in respect of the acquisition of satellite fields, in order to get the smaller aircraft off the major runways at the main stations across the country?

Mr. MCGREGOR: I think I should refer the question to the minister. T.C.A. has nothing to do with airports as such.

Mr. CHOWN: I will write him a letter.

Mr. HEES: We are very anxious to do that. We find it will be much more difficult than perhaps you realize. These satellite fields, as you know, are required in the neighbourhood of large cities. You probably realize when a city has grown to such an extent that it has an airport, it has become overcrowded and it is very difficult to obtain the right kind of land within an approachable distance of the city.

There is also quite a reluctance on the part of the communities to make the land available. We are, however, proceeding with it as quickly as we can. We are anxious to take the pressure off a number of our major airfields. In a number of cases we are looking for satisfactory sites.

Mr. BROOME: May I ask a question supplementary to that since the minister did open up the subject.

Mr. HEES: I did not open it up.

Mr. BROOME: Since a difficult problem is getting the land in order to make an airport, where is your problem in a situation where you do happen to have a satellite airport such as at Boundary Bay?

Mr. HEES: As Mr. Broome knows, our problem there is not one of obtaining land. It is a problem of the Department of National Defence finding another location and vacating.

Mr. FRASER: May I ask one question?

The CHAIRMAN: Of whom; the minister, or the president?

Mr. FRASER: Mr. McGregor. This is a question under the insurance fund provision in the report. We had a Viscount destroyed by another carrier in New York. Is that carried in the balance sheet? Did you receive anything from the carrier?

Mr. MCGREGOR: No; it is not in the balance sheet. The book value of the aircraft has been taken out of the assets of the company. Legal proceedings are being taken jointly against the airline in question and the manufacturer, because it became quite clear we were not going to collect for the aircraft without that.

Unfortunately, this suit—towards which I think we are heading, subject to settlement out of court—is being allowed to go on by what I might call the defendants, simply because there is an argument between the two of them as to the financial responsibility with regard to the difficulty which occurred in the other company's aircraft.

However, there has been no remuneration paid to T.C.A., nor has any deduction been taken from the insurance fund in respect of that.

Mr. FRASER: Do you expect you will get anything out of that?

Mr. MCGREGOR: Yes; at a legal price.

Mr. CREAGHAN: We have not had any information on abandonment. Your parent company is always abandoning lines across the country which causes

a great deal of embarrassment at times to elected members. Has your company abandoned any routes?

Mr. MCGREGOR: Yes. We recently abandoned the service to Kapuskasing. I believe it was in March of last year. We also abandoned a summer service to Muskoka. In both cases we applied to the Air Transport Board. This matter was dealt with before you came in.

Mr. CREAGHAN: Do you have to have permission from the Air Transport Board in order to abandon a line?

Mr. MCGREGOR: Yes.

Mr. CHEVRIER: In most cases, when you abandon are there not several other carriers interested in buying the line?

Mr. MCGREGOR: One carrier expressed an interest in servicing the Kapuskasing line. I believe it did for a while and then said they were losing \$10,000 a month and they stopped it.

Mr. CHEVRIER: What about this line in northern Quebec which was not abandoned but which was bartered, I believe, with another line?

Mr. MCGREGOR: We acquired the operation from Montreal and Ottawa through Val d'Or, Timmins, and so on, in exchange for the Mexican service. We are still operating it and pleased with it.

Mr. CHEVRIER: Is that considered an abandonment?

Mr. MCGREGOR: No. The service continues.

Mr. CREAGHAN: You have a line from Montreal to Goose Bay in which I understand Maritime Central has been requesting some sort of arrangement whereby they might take it over. I am wondering whether or not it was ever discussed at a meeting of the directors? Has any policy decision been made as to whether or not M.C.A. would be given the flight from Montreal to Goose Bay?

Mr. MCGREGOR: Yes. The answer is no.

Mr. CREAGHAN: Will you hang on to that flight even if you continue to make a loss?

Mr. MCGREGOR: We are not making a loss on it.

Mr. CREAGHAN: I understood there was some evidence here that you might be losing \$10 million a year on some of these runs.

Mr. MCGREGOR: No.

Mr. CREAGHAN: Have you any statistics on the Montreal-Goose Bay flight?

Mr. MCGREGOR: Yes; very carefully worked out ones.

Mr. CREAGHAN: You are convinced you are making a profit on it?

Mr. MCGREGOR: Very much so.

Mr. CREAGHAN: And you are satisfied you are giving good service?

Mr. MCGREGOR: Yes; three flights a week.

The CHAIRMAN: Are there any other questions on the financial statement? We previously dealt with traffic service.

Mr. DRYSDALE: You mentioned that you disposed of some DC-3's this year. I am wondering why you disposed of them and whether or not you obtained some new ones?

Mr. MCGREGOR: There are no new ones.

Mr. DRYSDALE: I was just wondering how much they had depreciated?

Mr. MCGREGOR: We depreciated them on our books to \$5,000 residual value. We obtained on the average something in the order of \$60,000 apiece for them.

Mr. DRYSDALE: What was the price new?

Mr. MCGREGOR: We did not buy them new. They were originally aircraft brought into Canada at the end of the war which were modified and completely rebuilt by Canadair. I believe they went on our books at something in the order of \$150,000.

The CHAIRMAN: Are there any other questions on the financial statement?

Mr. CATHERS: Returning to that \$6 million insurance fund; is that increasing?

Mr. MCGREGOR: Yes.

Mr. CATHERS: It does not show in your statement that any money is being set aside out of your operating fund into that fund. Is there any.

Mr. MCGREGOR: The fund was built up from \$5,600,000 odd to \$6 million by transfer from earned surplus to it, with respect to 1958. At the present time, by board action, there are accruals being made to the fund monthly.

Mr. CATHERS: It looks small when you consider the fact that if you lose one aircraft you lose practically your whole fund.

Mr. MCGREGOR: Yes, and that is why the fund is being built up. For years it sat solidly with a board approved ceiling of \$6 million, and it is the prospect of these aircraft and the value of them that caused the board recently to adopt the policy of making additional accruals to the fund.

Mr. CATHERS: Does this insurance fund cover you for damage to your aircraft—public liability and all insurance,—or do you have outside insurance?

Mr. MCGREGOR: It is the company's own money, which can be applied to any claim that is laid against it, either by passenger liability or loss of equipment.

Mr. CATHERS: In other words, you are not taking outside insurance?

Mr. MCGREGOR: We carry some insurance outside. We carry third party risk with respect to flights; that is, the possibility of an aircraft falling on a house, or something of that kind. We carry ground risk insurance and buildings and contents insurance.

Moved by Mr. Broome and seconded by Mr. Pasco that the Annual Report be adopted.
Motion agreed to.

The CHAIRMAN: Now, we come to the Auditors' Report.

GEORGE A. TOUCHE & CO.

Chartered Accountants
410 St. Nicholas Street
Montreal

Montreal, Toronto, London, Winnipeg,
Regina, Saskatoon, Edmonton, Calgary,
Vancouver, Victoria

Represented in the
United States of America
and Great Britain
February 16th, 1959.

The Honourable,
The Minister of Transport,
Ottawa, Canada.
Sir,

As auditors of Trans-Canada Air Lines for the year 1958, we submit this report to Parliament through you.

1. *Financial Statements for 1958*

Included in the annual report of the Corporation, together with the usual financial statements, is a report from us in which we state that we have examined the accounts of the Corporation for the year 1958 and that, in our opinion, the balance sheet and statement of income are properly drawn up so as to give a true and fair view of the Corporation's affairs for 1958 and that these statements are prepared on a basis consistent with that of the preceding year.

We also state that, in our opinion, proper books of accounts have been kept by the Corporation and that the transactions coming to our notice have been within the powers of the Corporation.

2. *Materials and Supplies*

During 1958 a physical inventory of materials and supplies was taken by the Corporation's personnel; the items included in this inventory were valued on a basis consistent with prior years, that is, laid down cost based on latest invoice price with appropriate reductions for obsolete items. Where overages and shortages were disclosed by the inventory taking, suitable adjustments have been made in the records.

Although the investment in certain classifications of materials and supplies increased during the year, these increases were offset by reductions through the disposal of a quantity of DC3 spare parts.

3. *Insurance Fund*

At December 31st, 1958, the balance in the fund comprised:

Cash and accrued interest	\$ 76,175
Securities, at cost	5,998,620
	<hr/>
	\$6,074,795
Less: Amount payable to the Corporation	74,795
	<hr/>
	\$6,000,000
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The investments in the fund, consisting of Government bonds and similar securities, had a market value at December 31st, 1958 of approximately \$5,276,000, or 12% below original cost. An actual loss will occur only if it is found necessary to sell the securities prior to their maturity. The interest earnings of the fund totalling \$204,986 have been included in non-operating income.

4. Property and Equipment

During the year under review the net investment in property and equipment increased by \$14,172,000, accounted for as follows:

Additions to Assets

Aircraft and component parts—representing 15 Viscounts and 1 Super Constellation	\$22,696,000
Ground facilities and components	991,000
Buildings	1,131,000

\$24,818,000

Retirement of Assets	3,188,000
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\$21,630,000

Less: Net increase in accumulate depreciation	7,458,000
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\$14,172,000

The property and equipment account has been adjusted to reflect the values of 12 DC3's disposed of during the year and 1 Viscount which was destroyed in a ground accident.

The net increase in accumulated depreciation is made up of depreciation provided against operations amounting to \$9,911,000 less charges of \$2,453,000 representing retirements and miscellaneous adjustments.

Provision for depreciation has been made on a straight line basis as follows:

Super Constellation—to reduce to residual values over a period of seven years from date of being put into service.

Viscount —to reduce to residual values over a period of nine years from date of being put into service.

North Star and DC3—reduced to residual values in prior years.

Ground facilities —to amortize over estimated useful life, the period depending on the type of asset.

In accordance with the Corporation policy of not depreciating assets until they are available for service, no depreciation has been provided against the accumulated costs of work under construction for the new Dorval maintenance and overhaul base.

The estimated total cost of construction and equipment for the new Dorval maintenance and overhaul base is \$20,000,000. At December 31st, 1958, construction costs of \$1,246,000 had been incurred and charged to property and equipment account and further construction costs of \$14,000,000 were anticipated.

We are informed that all equipment has been maintained in efficient operating condition.

5. Progress Payments on Purchase of Equipment

At December 31, 1958 payments had been made against contracts for purchase of aircraft and related equipment which will be delivered in future years. These payments totalled \$17,675,000 at that date and have been applied against the following commitments:—

4 Viscounts for delivery in 1959	\$ 2,117,000
6 Douglas DC8's for delivery in 1960 and 1961	6,768,000
20 Vanguards for delivery in 1960 and 1961	6,797,000
1 Super Constellation for delivery in 1959	246,000
Douglas DC8 engine spares	832,000
Vanguard engine spares	607,000
Flight simulators	308,000
	<hr/>
	\$17,675,000
	<hr/>

Amounts totalling \$92,000,000 remain to be paid prior to or upon completion of these contracts. At December 31, 1958, the Corporation was protected by forward contracts against foreign currency fluctuations on aircraft purchase commitments to the following extent:

United States funds	\$16,400,000
Sterling	£ 1,860,000

6. Loans and Debentures

The net increase in notes payable to Canadian National Railways, amounting to \$24,600,000, is the result of the following changes:

New loans obtained	\$36,100,000
Loan repaid in cash	\$5,000,000
Loans refinanced by issuance of a debenture maturing	
February 1, 1981	6,500,000
	<hr/>
	\$24,600,000
	<hr/>

The debentures payable to Canadian National Railways at December 31st, 1958 consisted of:

3 $\frac{7}{8}$ % maturing January 1st, 1973	\$20,000,000
4 $\frac{1}{4}$ % maturing February 1st, 1981	6,500,000
	<hr/>
	\$26,500,000
	<hr/>

The increase in the amount of loans and debentures since December 31st, 1957 is the reason for the increase in the amount shown as a current liability for interest payable.

7. *Insurance Reserve*

During the year under review, this reserve was re-established at \$6,000,000 by the appropriation from surplus of \$330,000. No amounts were charged to this reserve during 1958. Provision has been made in the Corporation's accounts for recoveries from other parties or through insurance placed with outside underwriters for major accident claims and expenses incurred prior to December 31st, 1958.

8. *Income Taxes*

No provision for income taxes has been made because, as permitted by regulations under the Income Tax Act, the Corporation intends to claim capital cost allowance (depreciation) sufficient to offset the taxable income.

9. *Working Capital*

During the year under review the working capital, being the excess of current assets over current liabilities, increased by \$266,000. The following summary, expressed to the nearest thousand dollars, shows the factors accounting for this increase:

Working Capital at December 31st, 1957 (before deducting a temporary bank loan repaid from additional loans received in 1958 from Canadian National Railways)		\$ 5,811,000
Funds provided:		
Net income for the year	\$ 548,000	
Add—Depreciation, not involving an outlay of funds	9,911,000	
	<u>\$10,459,000</u>	
Deduct—Overhaul Reserve, used as an offset to major overhaul expenses	392,000	10,067,000
		<u>\$15,878,000</u>
Loans received from Canadian National Railways, net	24,600,000	
Proceeds from the debenture issued to Canadian National Railways	6,500,000	
		<u>\$46,978,000</u>
Funds applied:		
Expenditures per capital budget	\$33,863,000	
Other expenditures and retirements, net	1,708,000	
Transfer to Insurance Fund	330,000	
Repayment of temporary bank loan	5,000,000	40,901,000
		<u>\$46,978,000</u>
Working Capital at December 31st, 1958		<u><u>\$ 6,077,000</u></u>

10. *Statement of Income*

A comparison of the 1958 and 1957 results indicates the following principal variations:

Increase in operating revenues (15%) \$15,559,000

Larger items:

Passenger	\$15,029,000 (17%)	
Mail	231,000 (2%)	
Increase in operating expenses including depreciation (14%)		14,541,000

Larger items:

Salaries and wages	\$ 5,985,000 (13%)	
Fuel and oil	1,728,000 (12%)	
Landing fees, assessments and fuel handling	780,000 (20%)	
Insurance, employees' pension and welfare	1,138,000 (38%)	
Depreciation	3,092,000 (45%)	
Increase in income from operations		\$ 1,018,000
Decrease in non-operating income		70,000
Increase in interest on capital invested (48%)		805,000

Increase in net income		\$ 143,000
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11. *General*

Notes evidencing indebtedness under the Pay Later Plan for both overseas and domestic transportation have been discounted with the bank. The relative contingent liability is shown as a footnote to the Balance Sheet. A reserve of \$28,500 for possible delinquent payments of these notes is included in accounts payable.

Where applicable, foreign currencies at December 31st, 1958 have been converted at the following rates:

United States dollars—at par.

Sterling—at \$2.80 to the pound.

A policy of continual review of operational and administrative functions has enabled the Corporation to effect such changes in techniques as are necessary to maintain a high level of efficiency during this period of continuing expansion.

We are most appreciative of the excellent co-operation and assistance we have received from the Corporation's officers and staff.

Yours faithfully,

George A. Touche & Co.

Mr. CHOWN: I move that the auditors' report for the year ending December 31, 1958 be passed.

Mr. CHEVRIER: I will second the motion.

Mr. DRYSDALE: I have a very brief question. I notice there is a new airport terminal—

The CHAIRMAN: Just a minute, gentlemen; we do not want to lose a quorum. We still have the capital budget to deal with.

SESSIONAL COMMITTEE

TRANS-CANADA AIR LINES

CAPITAL BUDGET

1959

Application of Funds:

Property & Equipment Budget	\$63,750,000
Refinancing Loans—C.N.R.	5,000,000
Additional Working Capital	1,200,000
	<hr/>
	\$69,950,000

Source of Funds:

Net Income	\$ 500,000	
Depreciation Provisions	12,450,000	12,950,000
Loans from Canadian National Railways		\$57,000,000
		<hr/>

TRANS-CANADA AIR LINES

PROPERTY & EQUIPMENT BUDGET—YEAR 1959

	Projects Previously Authorized	New Projects	Total
<i>Airplanes and Components</i>			
Airplanes	\$33,850,000	\$ 4,000,000	\$37,850,000
Betterment Projects	993,000	250,000	1,243,000
Airplane Spares	1,060,000	1,000,000	2,060,000
	<hr/>	<hr/>	<hr/>
Total	\$35,903,000	\$ 5,250,000	\$41,153,000
<i>Ground Facilities and Components</i>			
Ground Communications	\$ 5,000	\$ 900,000	\$ 905,000
Hangar and Shop	15,000	2,200,000	2,215,000
Ramp	25,000	100,000	125,000
Motorized Vehicles	70,000	1,250,000	1,320,000
Office Equipment	73,000	200,000	273,000
Miscellaneous Equipment	1,176,000	900,000	2,076,000
	<hr/>	<hr/>	<hr/>
Total	\$ 1,364,000	\$ 5,550,000	\$ 6,914,000
<i>Buildings and Improvements</i>	\$13,433,000	\$ 1,950,000	\$15,383,000
<i>Contingency Fund</i>		\$ 300,000	\$ 300,000
	<hr/>	<hr/>	<hr/>
Total Property & Equipment	\$50,700,000	\$13,050,000	\$63,750,000

The expenditures in respect of each of the above items may exceed the amount shown by not more than 10% without further approval, provided the total expenditure on the said items does not exceed \$63,750,000.

Initial down payments shown in this Budget for aircraft, engines, reservations system and buildings carry with them commitments for expenditures in subsequent years, and these commitments, together with commitments associated with previously approved Budgets, produce total committed expenditures in future years as follows:

Committed Expenditure in Future Years

	Commitments Previously Authorized	Commitments per 1959 Budget	Total Future Years' Commitments
1960	\$37,429,000	\$22,082,000	\$59,511,000
1961	23,742,000	7,986,000	31,728,000
	<hr/>	<hr/>	<hr/>
	\$61,171,000	\$30,068,000	\$91,239,000

The CHAIRMAN: Mr. Drysdale, you move that this be adopted, and then ask your question.

Mr. DRYSDALE: I would like to direct my question to the Minister of Transport. In view of this new terminal building being constructed at Montreal, I was wondering if the minister could arrange for the committee to attend the opening, or some time thereafter, to see at first hand some of the things we are examining.

Mr. CATHERS: Another jaunt.

Moved by Mr. Drysdale and seconded by Mr. Chown that the capital budget be adopted.

The CHAIRMAN: Motion agreed to. That is all, gentlemen; thank you very much for your cooperation.

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959

SESSIONAL COMMITTEE

ON

**RAILWAYS, AIR LINES
AND SHIPPING**

Owned and Controlled by the Government

Chairman: HONOURABLE W. EARL ROWE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

Third Report to the House.

THURSDAY, MAY 21, 1959

Canadian National Railways and Trans-Canada Air Lines
Annual Report (1958).

*(Proceedings relating to Trans-Canada Air Lines appear in Issue No. 3)
(Proceedings relating to Canadian National Railways appear in
Issues Nos. 1 and 2)*

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

SESSIONAL COMMITTEE
on
RAILWAYS, AIR LINES AND SHIPPING

Owned and controlled by
the Government

Chairman: Hon. W. Earl Rowe

Vice-Chairman: Yvon R. Tassé

and Messrs.

Badanai,
Bourbonnais,
Brassard (*Lapointe*),
Broome,
Carter,
Chevrier,
Chown,
Creaghan,
Drysdale,

Fisher,
Fraser,
Granger,
Grills,
Horner (*Jasper-Edson*),
Kennedy,
Martini,
McPhillips,
McWilliam,

Mitchell,
Monteith (*Verdun*),
Pascoe,
Robinson,
Smallwood,
*Smith (*Calgary S.*),
Smith (*Simcoe North*)

Antonio Plouffe,
Assistant Chief Clerk of Committees.

* Replaced Mr. Grills on Wednesday, May 6.

NOTE

No Capital Budget for 1959 was contemplated in respect of the Canadian National (West Indies) Steamships Limited, although the Order of Reference of the House of Commons of April 29th refers the said Budget to the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, May 20, 1959.

(9)

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, met *in camera* this day at 3.30 p.m. The Chairman, the Honourable Earl Rowe, presided.

Members present: Messrs. Broome, Carter, Fraser, Horner (*Jasper-Edson*), Martini, Monteith (*Verdun*), Pascoe, Rowe and Tassé—(9).

At 3.40 o'clock, the House division bells having rung, the Committee suspended its proceedings.

At 4.05 o'clock the Committee resumed.

Members present: Messrs. Badanai, Broome, Carter, Chevrier, Creaghan, Drysdale, Fisher, Fraser, Granger, Horner (*Jasper-Edson*), Martini, McPhillips, Mitchell, Monteith (*Verdun*), Pascoe, Rowe and Tassé—(17).

The Committee had for consideration a draft Report.

The Chairman read the said Report paragraph by paragraph.

After discussion, it was agreed to include in its Report to the House the following recommendation:

“Your Committee recommends that it be appointed much earlier in any subsequent sessions to enable it to better determine its method of procedure”.

Ordered,—That the Chairman present the draft Report, as amended, as the Committee's Third Report to the House.

At 5.15 o'clock, the Committee adjourned *sine die*.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

REPORT TO THE HOUSE

THURSDAY, May 21, 1959.

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the government has the honour to present its

THIRD REPORT

Matters referred

1. Complying with the Orders of Reference of the House dated April 29 and May 4, 1959, your Committee had for consideration the following matters:

Canadian National Railways Annual Report (1958);

Canadian National Railways Capital Budget and Estimated Income Account (1959);

Canadian National (West Indies) Steamships Ltd—Annual Report (1958);

Canadian National Railways Securities Trust—Annual Report (1958);

Auditors' Reports to Parliament of Geo. A. Touche & Co. (Canadian National Railways and Trans-Canada Air Lines);

Main Estimates (1960) Items 410, 411 and 419;

Trans-Canada Air Lines—Annual Report (1958) and Capital and Property and Equipment Budgets (1959).

Witnesses

2. Your Committee held 9 meetings in the course of which were heard Mr. Donald Gordon, President of the Canadian National Railways; Mr. S. F. Dingle, Vice-President (Operations); and Mr. J. L. Toole, Vice-President (Accounting and Finance), as well as Mr. G. R. McGregor, President of Trans-Canada Air Lines, and representatives of the firm George A. Touche & Co., Auditors.

Second Report to the House

3. Your Committee considered items 410, 411 and 419 of the Main Estimates for the year 1960, hereafter listed:

410—Prince Edward Island Car Ferry and Terminals	\$ 1,741,000
411—Newfoundland Ferry and Terminals	4,738,000
419—Maritime Freight Rates Act	14,100,000

In its Second Report to the House dated May 12, 1959, your Committee recommended the approval of the said estimates. In the same report, your Committee informed the House that it had considered and approved the Capital Budget and the Estimated Income Account for 1959 of the Canadian National Railways as well as the Capital and the Property and Equipment Budgets of Trans-Canada Air Lines for the year 1959.

Canadian National Railways—Annual Reports, etc., and Trans-Canada Air Lines

4. Your Committee considered and approved the Annual Report for 1958 of the Canadian National Railways. It also examined and approved the Annual Report for 1958 of Trans-Canada Air Lines. Approval was also given to the

Canadian National (West Indies) Steamships Ltd—Annual Report for 1958, and the Canadian National Railways Securities Trust Annual Report (1958). The Auditors' Reports to Parliament for the year ended December 31, 1958 were considered and adopted.

5. The Annual Report of the Canadian National Railways for 1958 was tabled in the House on April 14th pursuant to section 40 of the C.N.R. Act, Chapter 29, S. of C. 1955. It showed operating revenues of \$704,947,410 and operating expenses of \$700,021,499 making a net revenue on railway operations of \$4,925,911. After taking into account taxes, rents, other income and fixed charges, there resulted a deficit of \$51,591,424 for the year's operations. This figure compares with a deficit of \$29,572,541 disclosed for the year 1957, the increase being attributed to a decline in traffic, higher wages, material costs and other related economic factors. Your Committee found however that in spite of less traffic, the Company continued its endeavour to improve all categories of service having due regard to sound economy, and to pursue its announced policy to modernize its equipment, its facilities, its methods and its techniques which are specially inherent to a railway system covering geographically such a vast territory.

Canadian National (West Indies) Steamships Ltd.

6. The Annual Report of the Canadian National (West Indies) Steamships Limited for the year ended December 31, 1958 was also tabled in the House on April 14, pursuant to section 85(3) of the Financial Administration Act, Chapter 116, R.S.C. 1952. Your Committee noted a net deficit of \$1,151,954 for 1958, compared with \$648,849.80 for the previous year. The report disclosed a capital surplus balance of \$3,500,910. The Company did not have a Capital Budget because, as contemplated in 1957, it has disposed of its assets and has ceased operations.

Trans-Canada Air Lines—Annual Report

7. Your Committee noted with satisfaction that Trans-Canada Air Lines recorded for 1958 a net surplus of \$547,429, after provision for depreciation of \$9,911,049, and the payment of interest on capital invested to the amount of \$2,495,586. Before allowances for these two expense items, income from operations rose to \$12,425,035, an increase of \$4,109,681 over 1957. Your Committee was pleased that the management of the company recorded a net profit for the eighth consecutive year.

8. Your Committee was interested in the continued progress in TCA's fleet conversion to turbine type aircraft. Fifteen additional propeller turbine Viscounts were put into service during 1958 while nine more DC-3's were retired. Also of interest was the fact that satisfactory flight tests have been undertaken by both DC-8 and Vanguard aircraft. Your Committee also observed that in the year under review TCA increased its passenger carrying capacity by 20% as compared to a 17% growth in passenger traffic. This however resulted in a further decline in the overall passenger load factor to 69.3%, in keeping with the Company's long range plans.

9. Your Committee recommends that this Committee be appointed much earlier in any subsequent session to enable it to better determine its method of procedure.

10. Your Committee wishes to express its appreciation to the Minister of Transport for his continuous attendance at the meetings and to Mr. Donald

Gordon, President of the Canadian National Railways and Messrs. S. F. Dingle and J. L. Toole. Your Committee is also thankful to Mr. G. R. McGregor, President of Trans-Canada Air Lines and Messrs. H. W. Seagrim and W. S. Harvey.

11. A copy of the Minutes of Proceedings and Evidence was appended to the Committee's Second Report.

Respectfully submitted,

W. EARL ROWE,
Chairman.

